Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
Corporate Government Sector
Cluster 2 – Social Security Services and Housing
Office of the Cluster Director

July 21, 2021

The Board of Directors
Small Business Guarantee and Finance Corporation
17th and 18th Floors, 139 Corporate Center Building
139 Valero St., Salcedo Village
Makati City

RECEIVED
JUL 21 2021

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Small Business Guarantee and Finance Corporation (SB Corporation) for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of the SB Corporation for the years ended December 31, 2020 and 2019.

The significant observations and recommendations that need immediate actions are as follows:

1. Real and Other Properties (ROPAs) with net carrying value of P37.205 million as at December 31, 2020 were classified as Non-current Assets Held for Sale (NCAHFS) even though most of the properties are not immediately disposable within one year from the date of classification, contrary to the provisions of Philippine Financial Reporting Standard (PFRS) 5, resulting in the overstatement of NCAHFS and understatement of Investment Property (IP) both by P37.205 million and their corresponding depreciation/impairment loss for the year as well as the accumulated depreciation/impairment are all understated while they are classified as NCAHFS. Moreover, 61 of these ROPAs classified under NCAHFS and one under IP totaling P31.070 million have not been reappraised/tested for any impairment, thus, these assets are not measured at the lower of its carrying amount and fair value less costs to sell, and hampers the disposal of the acquired properties leading to deterioration which is disadvantageous to the SB Corporation.

   We recommended that Management, through Controllership Group (CG) and other concerned Groups, to consider the following:

   a. Develop accounting and reporting policies for ROPAs that are consistent with the financial reporting standards and acceptable industry practice;

b. Reclassify the ROPAs which sale or disposal is not highly probable within one year to IP, taking into consideration the measurement and valuation prescribed for the latter; and

c. Require the Credit and Asset Recovery Support Group (CARSG) to conduct appraisal/impairment testing of the 62 ROPAs to determine their true economic value which is necessary in determining the selling price of the properties for disposal, and coordinate the results of the appraisal with the CG for the proper valuation of IP and NCAHFS in the books.

2. The nine receivable accounts per CARSG's Summary of Accounts Written-Off amounting to P2.853 million differs by P110,000 from what was recorded in the books in the amount of P2.963 million.

We recommended that Management, through the concerned Groups:

a. Revisit the Write-off Policies under BR No. 2018-11-2648 to include the necessary procedures in the writing-off of accounts, as well as the monitoring of accounts written-off;

b. Reconcile the variance noted, also, evaluate the remaining problem credits account which were not recorded as written-off by the CG if zero probability of collectability, and seek the approval of BOD to write-off the remaining balances of the accounts;

c. Create an effective monitoring system to monitor debts written-off and future recoveries and periodically review the individual loan obligor's information;

d. Periodically report to the BOD and senior Management the progress of recovery of accounts written-off; and

e. Prospectively, for accounts to be written off, ensure that the process of reconciliation is properly undertaken by CARSG against the book balances reported by CG before submission to BOD for approval.

3. The complete documentary requirements to support the written-off receivable accounts amounting to P65.244 million were not submitted for audit casting doubt on the correctness of the accounts written-off.

We recommended that Management, through the Office of the Chief Compliance Officer, submit for audit the necessary documentary requirements to support the written-off receivable accounts.

The other audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on April 29, 2021, are discussed in detail in Part II of the report.

In a letter of even date, we requested the President and Chief Executive Officer of SB Corporation to take appropriate actions on the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

Ma. Lisa P. Inguillo

MA. LISA P. INGUILLO
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

ANNUAL AUDIT REPORT

on the

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(Small Business Corporation)

For the Years Ended December 31, 2020 and 2019

EXECUTIVE SUMMARY

INTRODUCTION

The Small Business Guarantee and Finance Corporation (SB Corporation), is a government corporation created on January 24, 1991 by virtue of Section 11 of Republic Act (RA) No. 6977, as amended on May 6, 1997 by RA No. 8289, otherwise known as “Magna Carta for Small and Medium Enterprises”. Further, on May 23, 2008, the President of the Philippines signed into law RA No. 9501, entitled “An Act to Promote Entrepreneurship by Strengthening Development and Assistance Programs to Micro, Small and Medium Scale Enterprises”. The law increased the Corporation’s authorized capital stock from P5 billion to P10 billion. As at December 31, 2020, the capital infusion of the National Government (NG) to SB Corporation amounting to P8.080 billion completed the equity requirement of the NG to the Corporation.

Section 13 of the said RA No. 9501, further amended Section 11 of RA No. 6977, quoted as follows:

> *SEC.13. Section 11 of the same Act, as amended, is hereby further amended to read as follows: “SEC. 11. Creation of Small Business Guarantee and Finance Corporation. - There is hereby created a body corporate to be known as the Small Business Guarantee and Finance Corporation, hereinafter referred to as the* ***Small Business Corporation (SB Corporation),*** *which shall be charged with the primary responsibility of implementing comprehensive policies and programs to assist MSMEs in all areas, including but not limited to finance and information services, training and marketing.”*

On July 23, 2018, Executive Order (EO) No. 58 was issued and transferred to PHILEXIM all the guarantee-related functions, programs, funds, assets and liabilities of SBC. Pursuant to Section 2 of EO No. 58, the Secretary of Finance declared August 31, 2019 as the effective date of the merger through the issuance of Memorandum Circular No. 001-2019 dated September 3, 2019.

The SB Corporation is under the policy program and administrative supervision of the Micro, Small and Medium Enterprises Development (MSMED) Council of the Department of Trade and Industry (DTI).

The mission of SB Corporation is to grow the Micro, Small and Medium Enterprises (MSME) sector by developing and implementing financing and capacity building support programs for underserved enterprises and for grassroots MSME organizations and advocating for measures and policies that will promote a stronger MSME finance industry.

The policy making body of the Corporation is governed by the Board of Directors composed of eleven (11) members headed by a Chairman, appointed by the President of the Philippines, the Secretaries of the Department of Trade and Industry and of the Department of Finance as Ex-officio members, a private sector representative and seven representatives of SB Corporation’s common stock shareholders with two positions vacant.

The policies of the Board are implemented into action by the President and Chief Executive Officer, appointed by the President of the Philippines for a term of one year. She is assisted by the executive vice president, three senior vice presidents and fourteen (14) vice presidents including the OIC designates. For the calendar year 2020, SB Corporation personnel complement totaling 329, consisting of 158 regular employees, 6 probationary employees, 2 with coterminous appointment, 120 contractual employees, and 43 agency-hired personnel.

The Corporation's principal address is at the 17th, 18th and 19th Floors, 139 Corporate Center, Valero Street, Salcedo Village, Makati City. It has four regional lending area offices, fourteen (14) desk offices and sixty (60) field/provincial offices within the Philippines.

The proposed CY 2020 SB Corporation's Corporate Operating Budget (COB) submitted to the Department of Budget and Management (DBM) under Board Resolution No. 2020-05-2921 dated June 2, 2020 amounted to P3.751 billion of which only P3.740 billion was approved.

The actual utilization of the said budget amounted to P3.399 billion resulting in a net difference of P340.580 million, summarized as follows:

	Per DBM Approved COB	**Actual Utilization**	**Difference**
Personnel services	230,669,000	224,471,931	6,197,069
Maintenance and other operating expenses (MOOE)	1,569,624,000	119,572,101	1,450,051,899
Capital outlay	1,939,469,000	3,055,138,250	(1,115,669,250)
	3,739,762,000	**3,399,182,282**	**340,579,718**

The significant variance between the Budget per approved COB and the actual utilization in MOOE and Capital Outlay in the above table is mainly attributed to the nature of expenditure specified in the Special Allotment Release Order (SARO) released by DBM to SB Corporation for the implementation of P3 Program, particularly the object – Micro Finance on Lending, in the total amount of P1.425 billion. The said SARO explicitly stated that its object of expenditure shall be under MOOE. However, the actual utilization for the Micro Finance on Lending (P3 Loans) was charged to Capital Outlay.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

	2020	2019 As restated	Increase (Decrease)
Assets	**16,038,589,019**	6,467,406,535	9,571,182,484
Liabilities	**1,449,213,426**	1,362,183,136	87,030,290
Equity	**14,589,375,593**	5,105,223,399	9,484,152,194

II. Comparative Results of Operations

	2020	2019	Increase (Decrease)
Income	**550,047,094**	573,739,877	(23,692,783)
Expenses	**695,204,470**	827,728,992	(132,524,522)
Net loss before tax	**(145,157,376)**	(253,989,115)	108,831,739

(Forward)

Income tax benefit	**29,172,346**	54,828,738	(25,656,392)
Net loss after tax	**(115,985,030)**	(199,160,377)	83,175,347
Subsidy from National Government	**1,500,000,000**	1,500,000,000	0
Comprehensive income	**1,384,014,970**	1,300,839,623	83,175,347

SCOPE OF AUDIT

Our audits covered the examination, on a test basis, of the accounts and transactions of the SB Corporation for the period January 1 to December 31, 2020 in accordance with International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2020 and 2019. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

AUDITOR'S OPINION

We rendered an unmodified opinion on the fairness of presentation of the financial statements of SB Corporation as at and for the years ended December 31, 2020 and 2019.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATION

1. Real and Other Properties (ROPAs) with net carrying value of P37.205 million as at December 31, 2020 were classified as Non-current Assets Held for Sale (NCAHFS) even though most of the properties are not immediately disposable within one year from the date of classification, contrary to the provisions of Philippine Financial Reporting Standard (PFRS) 5, resulting in the overstatement of NCAHFS and understatement of Investment Property (IP) both by P37.205 million and their corresponding depreciation/impairment loss for the year as well as the accumulated depreciation/impairment are all understated while they are classified as NCAHFS. Moreover, 61 of these ROPAs classified under NCAHFS and one under IP totaling P31.070 million have not been reappraised/tested for any impairment, thus, these assets are not measured at the lower of its carrying amount and fair value less costs to sell, and hampers the disposal of the acquired properties leading to deterioration which is disadvantageous to the SB Corporation.

   We recommended that Management, through Controllership Group (CG) and other concerned Groups, to consider the following:

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   We recommended that Management, through the concerned Groups:

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   e. Prospectively, for accounts to be written off, ensure that the process of reconciliation is properly undertaken by CARSG against the book balances reported by CG before submission to BOD for approval.

3. The complete documentary requirements to support the written-off receivable accounts amounting to P65.244 million were not submitted for audit casting doubt on the correctness of the accounts written-off.

   We recommended that Management, through the Office of the Chief Compliance Officer, submit for audit the necessary documentary requirements to support the written-off receivable accounts.

The other audit observations together with the recommendations are discussed in Part II of this Report.

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As at December 31, 2020, audit disallowances amounted to P277.008 million, while there are no audit suspensions or charges issued during the year.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 13 audit recommendations embodied in the CY 2019 Annual Audit Report, nine were fully implemented and four were partially implemented. The details are presented in Part III of this Report.

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PART I

AUDITED FINANCIAL STATEMENTS

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City
Corporate Government Sector
Cluster 2 – Social Security Services and Housing

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Small Business Guarantee and Finance Corporation
17th and 18th Floors, 139 Corporate Center
139 Valero Street, Salcedo Village
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Small Business Guarantee and Finance Corporation (SB Corporation), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SB Corporation as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the SB Corporation in accordance with the Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the SB Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the SB Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the SB Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SB Corporation's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the SB Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the SB Corporation to cease to continue as a going concern; and

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 30 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the Management of SB Corporation. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

COMMISSION ON AUDIT

TERESITA B. TITULAR
Acting Supervising Auditor

April 29, 2021

SMALL BUSINESS CORPORATION
Transforming the MSME landscape

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Small Business Guarantee and Finance Corporation** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2020 and 2019 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Corporation's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stakeholders.

The Commission on Audit, through its authorized representatives, has audited the financial statements of the Corporation pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 28 of the Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines. The audit was conducted in accordance with International Standards of Supreme Audit Institutions, and the auditor, in its report to the Board of Directors, has expressed its opinion upon completion of such audit.

USEC. BLESILA A. LANTAYONA
Acting Chairman of the Board

MA. LUNA E. CACANANDO
President/CEO

CORAZON A. DIMAYUGA
Head, Controllership Group

Signed this 29th day of April 2021.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019
(Amounts in Philippine Peso)

	Notes	2020	2019 (As restated)
ASSETS			
Current assets			
Cash and cash equivalents	4	**7,555,580,765**	226,221,155
Investments	5	**569,584,074**	11,468,965
Receivables	6	**2,239,646,332**	2,838,004,020
Inventories	7	**325,803**	133,421
Non-current asset held for sale	8	**37,204,960**	54,728,782
Other assets	9	**5,324,903**	11,008,092
		10,407,666,837	3,141,564,435
Non-current assets			
Investments	5	**772,747,580**	885,594,880
Receivables	6	**4,584,289,945**	2,195,866,992
Property and equipment	10	**63,211,663**	68,228,675
Investment property	11	**19,880,368**	12,816,423
Deferred tax assets	12	**185,535,253**	159,053,356
Other assets	9	**5,257,373**	4,281,774
		5,630,922,182	3,325,842,100
TOTAL ASSETS		**16,038,589,019**	6,467,406,535
LIABILITIES AND EQUITY			
Current liabilities			
Financial liabilities	13	**191,326,131**	269,202,408
Intra-agency payables	14	**244,539,357**	17,678,803
Trust liabilities	15	**1,767,220**	904,220
Deferred credits/Unearned income	16	**23,952,288**	22,173,275
Other payables	17	**63,536,450**	41,455,969
		525,121,446	351,414,675
Non-current liabilities			
Financial liabilities	13	**879,990,255**	998,618,648
Intra-agency payables	14	**40,000,000**	0
Deferred tax liabilities	23.5	**4,101,725**	12,149,813
		924,091,980	1,010,768,461
TOTAL LIABILITIES		**1,449,213,426**	1,362,183,136
Equity			
Share premium	18	**79,510,460**	79,510,460
Retained earnings	19	**4,587,358,733**	3,143,304,539
Stockholders' equity	20	**9,922,506,400**	1,882,408,400
TOTAL EQUITY		**14,589,375,593**	5,105,223,399
TOTAL LIABILITIES AND EQUITY		**16,038,589,019**	6,467,406,535

The Notes on pages 9 to 50 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2020 and 2019
(Amounts in Philippine Peso)

	Notes	2020	2019
INCOME			
Service and business income	21.1a&b	**387,969,251**	358,495,812
Gains	21.2	**155,934,951**	210,583,248
Other non-operating income	21.3	**6,142,892**	4,660,817
		550,047,094	573,739,877
EXPENSES			
Personal services	22.1	**224,471,931**	206,283,742
Maintenance and other operating expenses	22.2	**119,572,101**	138,872,603
Financial expenses	22.3	**15,243,591**	25,163,093
Non-cash expenses	22.4	**335,916,847**	457,409,554
		695,204,470	827,728,992
Profit/(Loss) Before Tax		**(145,157,376)**	(253,989,115)
Income tax benefit	23	**29,172,346**	54,828,738
Profit/(Loss) After Tax		**(115,985,030)**	(199,160,377)
Subsidy from National Government	24	**1,500,000,000**	1,500,000,000
TOTAL COMPREHENSIVE INCOME		**1,384,014,970**	1,300,839,623

The Notes on pages 9 to 50 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2020 and 2019
(Amounts in Philippine Peso)

	Retained Earnings	**Share Premium**	**Stockholders' Equity**	**Total**
	Note 19	Note 18	Note 20	
Balance at January 1, 2020	3,143,304,539	79,510,460	1,882,408,400	5,105,223,399
Issuance of share capital	0	0	8,080,098,000	8,080,098,000
Comprehensive income for the year	1,384,014,970	0	0	1,384,014,970
Dividends	(55,524,224)	0	0	(55,524,224)
Treasury shares	0	0	(40,000,000)	(40,000,000)
Other adjustments	115,563,448	0	0	115,563,448
Balance at December 31, 2020	**4,587,358,733**	**79,510,460**	**9,922,506,400**	**14,589,375,593**
Balance at January 1, 2019 (as restated)	1,868,025,553	79,510,460	1,919,902,000	3,867,438,013
Comprehensive income for the year	1,300,839,623	0	0	1,300,839,623
Dividends	(19,844,511)	0	0	(19,844,511)
Other adjustments	(5,716,126)	0	(37,493,600)	(43,209,726)
Balance at December 31, 2019	3,143,304,539	79,510,460	1,882,408,400	5,105,223,399

The Notes on pages 9 to 50 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(Amounts in Philippine Peso)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows			
Collection of income/revenue		**361,367,499**	310,095,725
Receipt of assistance/subsidy		**1,500,000,000**	1,500,000,000
Collection of receivables		**3,461,416,395**	2,794,919,195
Other receipts		**408,602,191**	39,521,506
		5,731,386,085	4,644,536,426
Cash outflows			
Payment of expenses		**270,185,998**	379,817,097
Grant of cash advances		**439,236,616**	806,891
Prepayments		**5,063,220**	17,940,263
Release of loans to financial institutions and MSMEs		**5,067,900,906**	4,437,424,674
Other disbursement		**192,382**	6,338,940
		5,782,579,122	4,842,327,865
Net cash used in operating activities		**(51,193,037)**	(197,791,439.00)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows			
Proceeds from:			
Sale/disposal of investment property		**10,757,955**	3,039,029
Maturity/redemption of long-term investments/return on investments		**5,577,164,218**	4,842,366,934
		5,587,922,173	4,845,405,963
Cash outflows			
Purchase/construction of investment property		**628,407**	0
Purchase/construction of property and equipment		**2,199,676**	7,701,044
Purchase of investments		**5,978,323,836**	4,225,705,953
		5,981,151,919	4,233,406,997
Net cash provided by (used in) investing activities		**(393,229,746)**	611,998,966
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash inflows			
Contribution from National Government		**8,080,098,000**	0
Proceeds from issuance of capital stock and other equity securities		**4,889,398**	0
		8,084,987,398	0
Cash outflows			
Payment of long-term liabilities		**221,048,221**	896,502,786
Payment for reacquisition of capital stock and other equity securities		**40,000,000**	0
Payment of interest on loans and other financial charges		**17,258,337**	58,847,982
Payment of cash dividends		**32,865,501**	19,844,511
		311,172,059	975,195,279
Net cash provided by (used in) financing activities		**7,773,815,339**	(975,195,279)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**7,329,392,556**	(560,987,752)
Effects of foreign exchange rate changes on cash and cash equivalents		**(32,946)**	(21,238)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**226,221,155**	787,230,145
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**7,555,580,765**	226,221,155

The Notes on pages 9 to 50 form part of these financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
(SMALL BUSINESS CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Small Business Guarantee and Finance Corporation, commonly known as Small Business Corporation (SB Corporation), is a government corporation created on January 24, 1991 by virtue of Section 11 of Republic Act (RA) No. 6977, amended on May 6, 1997 by RA No. 8289, otherwise known as Magna Carta for Small and Medium Enterprises (SMEs). SB Corporation is under the policy program and administrative supervision of the Micro, Small and Medium Enterprise Development (MSMED) Council of the Department of Trade and Industry (DTI), the primary agency responsible for the promotion and development of (Micro, Small and Medium Enterprises) MSMEs in the country.

On May 23, 2008, the President of the Philippines signed into law RA No. 9501, entitled *"An Act to Promote Entrepreneurship by Strengthening Development and Assistance Programs to Micro, Small and Medium Scale Enterprises Amending for the Purpose Republic Act No. 6977, as amended, otherwise known as the 'Magna Carta for Small and Medium Enterprises' and for other purposes".* The law, among others, increased SB Corporation's authorized capital stock from P5 billion to P10 billion. Section 13 thereof, amending Section 11 of RA No. 6977, states that:

> "*Creation of Small Business Guarantee and Finance Corporation* – There is hereby created a body corporate to be known as the Small Business Guarantee and Finance Corporation, hereinafter referred to as the Small Business Corporation (SB Corporation), which shall be charged with the primary responsibility of implementing comprehensive policies and programs to assist MSMEs in all areas, including but not limited to, finance and information services, training and marketing."

SB Corporation's mandate is to provide access to finance, financial management and capacity building to MSMEs. It has several programs for the MSME market – wholesale lending to smaller financial institutions, cooperatives and foundations; retail or direct lending to MSMEs; and guarantee programs for larger banks to cover MSME loans without collateral or with insufficient collateral. SB Corporation, also, provides financial management and capacity building for rural banks with its Borrower Risk Rating System program.

However, on July 23, 2018, Executive Order (EO) No. 58 was issued mandating the creation of a single entity handling the government guarantee system. Under the said EO, within one year from the effectivity thereof, the guarantee-related functions, programs, funds, assets and liabilities of the SB Corporation, among others, shall be transferred to the Trade and Investment Development Corporation of the Philippines, now known as the Philippine Guarantee Corporation (PHILGUARANTEE). On August 31, 2019, all assets, liabilities, funds and guarantee function of SB Corporation was transferred to PHILGUARANTEE in compliance with EO No. 58.

In November 2020, the National Government (NG) provided additional capital infusion of P8.080 billion to SB Corporation in compliance to the provisions under RA No. 11494, *"An Act Providing for COVID-19 Response and Recovery Interventions and Providing*

Mechanisms to Accelerate the Recovery and Bolster the Resiliency of the Philippine Economy, Providing Funds Therefor, and For Other Purposes". The capital infusion aims to provide additional funds for the COVID-19 Assistance to Restart Enterprises (CARES) Program and the other lending programs of the Corporation to assist in the restart of the MSME industry during the pandemic.

Coping up with the operational effects of the CoVID-19 Pandemic

The pandemic required that SB Corporation responds in ways which may even be considered inconceivable pre-pandemic, given its developmental mandate and crucial countercyclical role in times of crisis. More importantly, the Corporation's pandemic response is fully aligned and adapted to address the unique challenges presented by restricted mobility and following strict health and safety protocols.

The foregoing demanded a dramatic acceleration towards operating norms that allow for enhanced alignment, pace and performance. Outcomes that would have normally taken years to achieve took place within months, sometimes even within weeks. Traditional constructs were dismantled in favor of agility to tackle the unprecedented and unforeseen marketplace disruptions. Towards this end, SB Corporation implemented the following initiatives and early policy actions:

- Developed and implemented a Pandemic Business Continuity Plan (BCP) to protect its employees and keep its core and mission-essential business operations functioning during the pandemic;
- Ensured that its workplace policies during the pandemic are responsive, equitable, adaptable, and compliant to national and local public health recommendations;
- Implemented alternative work arrangements (e.g., work from home, skeleton workforce, etc.) and provided adequate support mechanisms to SB Corporation personnel;
- Identified key business processes and resources required for it to adequately perform its mandate during the pandemic, particularly the immediate processing and disbursement of stimulus financing to pandemic-stricken MSMEs under the CARES Program;
- Created functional Ad Hoc Teams (e.g., Document Verification Team, Business Verification Team, Loan Releasing Team, and Credit Review Team) specifically designed to allow for remote work and adapted to respond to the recovery and rehabilitation needs of the MSME sector; and
- Leveraged on the momentum of the new operating environment to accelerate the organization's platformification plan, including the launch of a fully online loan application system and deliberate shift to digital loan disbursements.

The principal office of SB Corporation is at 17th and 18th Floors, 139 Corporate Center, 139 Valero St., Salcedo Village, Makati City. It has four regional lending offices, 14 desk offices and 60 field/provincial offices within the Philippines. Manpower complement is 166 and 164 regular employees for CYs 2020 and 2019, respectively.

The financial statements of the SB Corporation as at, and for the year ended December 31, 2020 (including the comparative financial statements as at and for the year ended December 31, 2019) were approved and authorized for issue by SB Corporation's Board of Directors (BOD) on April 29, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that are used in the preparation of the financial statements are summarized below. The policies are consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of financial statements preparation

(a) Statement of Compliance with Philippine Financial Reporting Standards

The accompanying financial statements of SB Corporation for the years ended December 31, 2020 and 2019 have been prepared by applying accounting policies in accordance with the Philippine Financial Reporting Standards (PFRS). PFRS are issued by the Financial Reporting Standards Council (FRSC) and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. SB Corporation presents all items of income and expenses in a single Statement of Comprehensive Income (SCI).

Starting January 1, 2019, SB Corporation adopted the guidelines laid down under COA Circular No. 2017-004 dated December 13, 2017 on the preparation of financial statements and other financial reports and implementation of the PFRS by government corporations classified as Commercial Public Sector Entities (CPSEs). Under COA Resolution No. 2020-013 dated January 31, 2020, SB Corporation is classified as a CPSEs. Accordingly, the SB Corporation modified the presentation of the prior years' amounts to conform to current year's presentation.

For the succeeding year and part of the continuing education of finance staff, SB Corporation will commission the services of a consultant to provide guidance for its Controllership Group in the formulation of policies/guidelines for the assessment, classification, measurement, and recognition of financial instruments, to include impairment losses, and appropriateness of its tax compliance activities. While this was initially scheduled for the year, the COVID-19 pandemic restricted certain activities to be undertaken during the year.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine Peso, SB Corporation's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of SB Corporation are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Corporation operates.

2.2 Adoption of new and amended PFRSs

Discussed below are the relevant information about these amendments and improvements.

(a) Effective in 2020 that are relevant to SB Corporation

(i) Amendment to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material. The amendments refine the definition of material in PAS 1 and align the definition used across PFRS and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgment.

(b) Effective in 2020 that is not relevant to SB Corporation

The SB Corporation noted the following amendment to PFRS, which is effective for annual periods beginning on or after January 1, 2020:

(ii) PFRS 16, COVID-19-related Rent Concessions. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before 30 June 2021.

(c) Effective for reporting periods on or after January 1, 2021

The SB Corporation noted the following amendments to PFRS, which are effective for annual periods beginning on or after January 1, 2021, application of which to the Corporation will be determined before implementation:

(iii) Amendment to PFRS 16, COVID-19 Rent-related Concessions beyond 30 June 2021. The amendment provides a one-year extension beyond 30 June 2021 in response to the on-going economic challenges resulting from the COVID-19 pandemic.

(iv) Amendment to PAS 1 and PFRS Practice Statement 2, Disclosure Initiative – Accounting Policies. The key amendments to PAS 1 includes: (a) to disclose material accounting policies rather than significant accounting policies; (b) clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and need not be disclosed; and (c) clarify that not all accounting policies that relate to material transactions, other events or conditions are themselves material to the financial statements.

(v) Amendments to PAS 8, Definition of Accounting Estimates. The amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

(vi) Amendments to PFRS 3, Reference to Conceptual Framework. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989 with a reference to the *Conceptual Framework for Financial Reporting*, which was issued in March 2018, without significantly changing its requirements.

(vii) Amendments to PAS 16, Property, Plant and Equipment – Proceeds before Intended Use. The amendment would prohibit an entity from deducting from the cost of an item of plant, property and equipment (PPE) any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by Management.

(viii) Amendment to PAS 37, Onerous Contracts – Cost of Fulfilling a Contract. The amendment clarifies the standard regarding costs that a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

(ix) Amendment to PAS 1, Classification of Liabilities as Current or Non-Current. The amendment intends to clarify that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period; and make clear the link between the settlement of the liability and the outflow of resources from the entity.

(x) Amendments to PFRS 3, Business Combinations – Definition of a Business. The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

(d) Effectivity Deferred Indefinitely

(xi) Amendments to PFRS 10, Consolidated Financial Statements, and to PAS 28, Investment in Associates and Joint Ventures – Sales or Contribution of Assets between an Investor and its Associates or Joint

Venture. The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

2.3 Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and in banks, working funds, demand deposits, with short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three months of maturity when placed or acquired.

2.4 Financial assets

a. Classification and initial measurement

Financial assets are classified, at initial recognition, as either subsequently measured at amortized cost, at Fair Value through Other Comprehensive Income (FVTOCI), or at Fair Value through Profit or Loss (FVTPL). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics. It is initially measured at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

Where assets are measured at fair value, gains and losses are either recognized entirely in profit or loss (FVTPL) or recognized in other comprehensive income (FVTOCI).

The classification of a financial asset is made at the time it is initially recognized, namely when the Corporation becomes a party to the contractual provisions of the instrument [PFRS 9, paragraph 4.1.1]. If certain conditions are met, the classification of an asset may subsequently need to be reclassified.

b. Subsequent measurement

Financial assets are measured at amortized cost if both of the following conditions are met: (i) the asset is held to collect contractual cash flows; and (ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

SB Corporation classified cash and cash equivalents, receivables and investments in treasury bills as financial assets at amortized cost.

Financial assets are measured at FVTOCI if both of the following conditions are met: (i) the asset is held, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVTOCI are subsequently measured at fair value. Interest income are calculated using the EIR method, and foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss.

c. De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when: (i) the right to receive cash flows from the asset has expired; or (ii) the Corporation has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either SB Corporation has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.5 Receivables

SB Corporation’s receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. These are initially recognized at fair value when cash is advanced for direct loans to participating financial institutions (conduits) and individual borrowers. After initial measurement, these are subsequently measured at amortized cost using the effective interest method less provision for impairment. The amortization is included under interest income from loans and receivables in the SCI. The losses arising from impairment/allowance for doubtful accounts are recognized in the SCI.

2.6 Inventories

Inventories are tangible items with cost below the capitalization threshold for property and equipment and are initially recorded at cost. These items are recognized as expense in full upon issuance to end users. Unissued inventories are regularly presented in the Monthly Inventory report for monitoring purposes.

2.7 Non-current asset held for sale (NCAHFS)

NCAHFS are booked initially at the outstanding balance of the loan less allowance for impairment plus transaction costs incurred upon acquisition. After classification as Non-current assets held for sale, they are measured at the lower of carrying amount and fair value less costs to sell and shall be tested for impairment.

2.8 Investment Properties

Investment properties are acquired assets or real and other properties acquired (ROPA) by the SB Corporation through dacion en pago or foreclosure in settlement of loans under the various lending facilities of the Corporation.

Investment properties are initially recorded at cost, which includes directly attributable costs incurred. Subsequent to initial recognition, investment properties except land are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Investment properties are appraised every two years to determine whether impairment exists. Immediate reappraisal may be undertaken if there is evidence of material decline in value. If the recoverable amount/appraised value is less than its carrying amount, the difference is recognized in the SCI as impairment loss.

An investment property is derecognized upon disposal or when no future economic benefits are expected from its disposal. Any gains or losses from the retirement or disposal of an investment are recognized in profit or loss in the period of retirement or disposal.

2.9 Investments in joint ventures

Investments in joint ventures are investments through direct ownership of equity instruments of investees and are recorded at cost as at date when the investor entity becomes a party to the contractual provisions of the instrument. SB Corporation does not take operational, controlling, or strategic positions with its investees.

If there is objective evidence that an impairment loss has been incurred on the equity instrument, the amount of impairment is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

2.10 Other investments

SB Corporation's other investments are similarly recognized initially at cost when investment is made. Periodic assessment is made to determine if impairment losses are incurred. The process in determining impairment losses in joint ventures is applied. Losses arising from impairments/allowance for impairment are recognized in the SCI.

2.11 Property and equipment

SB Corporation's depreciable properties are stated at cost less accumulated depreciation and any impairment in value. Pursuant to COA Circular Nos. 2017-004 and 2016-006 dated December 13, 2017 and December 29, 2016, respectively, a capitalization threshold of P15,000 is applied as the minimum cost of an individual asset to be recognized as property and equipment. Tangible items below the capitalization threshold are accounted for as inventories.

The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance, are charged against operations in the year in which the costs are incurred. When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the SCI.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets (cost less residual value over useful life). Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements

The estimated useful lives of depreciable assets follow:

Item of property and equipment	Estimated useful life
Condominium unit and leasehold improvements	10 to 30 years
Office furniture and fixtures	10 years
Business machines and equipment	5 years
Transportation equipment	7 years

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any of such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the SCI.

2.12 Financial liabilities

a. Initial recognition and measurement

Financial liabilities are classified, at initial recognition, either as: (i) financial liabilities at FVTPL; (ii) loans and borrowings; (iii) payables; or (iv) derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

b. Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings, accounts payable and accrued expenses.

On the other hand, after initial recognition, financial guarantee contracts are subsequently measured at the higher of: (i) the amount of the loss allowance determined in accordance with PFRS 9; and (ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of PFRS 15.

c. De-recognition

A financial liability is removed when it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires. [PFRS 9] Where there has been an exchange between parties of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss. [PFRS 9].

2.13 Impairment of assets

Assets are impaired if carrying amount exceeds the amount to be recovered through use or sale of the asset. An assessment is made at each Statement of Financial Position (SFP) date whether there is objective evidence that a specific financial or non-financial asset maybe impaired. If such evidence exists, any impairment loss is recognized in the SCI.

(a) Impairment of financial assets

If there is evidence that an impairment loss on assets not held at FVTPL (loans and receivables carried at amortized cost) has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the original EIR. The carrying amount of the asset shall be reduced either directly or through the use of allowance account. The allowance recognized for expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that SB Corporation expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The amount of loss, on the other hand, is charged to the SCI.

If in subsequent year, the amount of impairment loss decreases because of the event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of the impairment loss is recognized in the SCI.

SB Corporation implemented beginning 1 January 2020 simple loan loss methodologies fundamentally anchored on the principle of recognizing expected credit loss (ECL). As such, SB Corporation adopted the ECL model in measuring credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. Further, in compliance with the requirements of PFRS 9, SB Corporation considered past events, current conditions and forecasts of future economic conditions in assessing impairment.

Revision to this policy in Loan-Loss Estimation Methodology was proposed in December 2020. The revision, among others, take into consideration the applicable loan loss provisioning guidelines considering the pandemic related regulatory issuances of the BSP, its supervisory expectations per BSP Memorandum No. 2020-061 and the “Bayanihan Act”.

(b) Impairment of non-financial assets

Where an indicator of impairment exists, SB Corporation makes a formal estimate of recoverable amount. An asset’s recoverable amount is the higher of an asset’s cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Impairment losses are recognized in the SCI in those expense categories consistent with the function of the impaired assets.

If in subsequent year there is an indication that previously recognized impairment losses may no longer exist or may have decreased, a previously recognized impairment loss is reversed if there has been a change in estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the SCI.

2.14 De-recognition of financial instruments

(a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;

- SB Corporation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- SB Corporation has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When SB Corporation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the SB Corporation's continuing involvement in the asset.

(b) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or had expired.

2.15 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their best economic interest.

Assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

a. Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

b. Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,

c. Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, SB Corporation determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.16 Intangible assets

Intangible assets are stated at cost less accumulated amortization and any impairment in value.

2.17 Borrowing costs

Borrowing costs represent interest and other pertinent financial charges and costs incurred in connection with availments of domestic and foreign borrowings. In compliance with PAS 23 *Borrowing Costs* which prescribes the accounting treatment for borrowing costs, such costs are generally recognized and accrued as an expense in the period in which they are incurred.

2.18 Revenue and cost recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(a) Interest on loans

Interest and similar income derived from financial instruments measured at amortized cost and interest-bearing financial instruments is recorded at the EIR method. EIR is a measurement technique whose purpose is to calculate amortised cost and allocate interest revenue over the relevant time period. SB Corporation uses the expected credit loss impairment model based on the Bangko Sentral ng Pilipinas (BSP) Circular No. 1011 on loan classification.

Interest income, processing fees and penalties due on delayed payment are recognized upon collection.

(b) Investment income

Interest on interest-bearing placements and securities are recognized as the interest accrues, taking into account the effective yield on such assets. This includes gains and losses from fair value measurements.

(c) Service Fees

SB Corporation adopted a different income stream in the form of service fees for CY 2020. As part of the Corporation’s response to assist the MSMEs during the pandemic, loan facilities aimed to restart businesses were provided with zero-interest rate with minimum service fee which are recognized as an upfront charge.

2.19 Employee benefit plan

SB Corporation has a Provident Fund consisting of contributions made both by its officers and employees. Corporate contribution is vested to the employee after completing five years of service in SB Corporation. Details of the employee benefits are discussed in Note 26.

2.20 Leases

The new accounting model under PFRS 16 requires a lessee to recognize a 'right-of-use asset' and a lease liability. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating distinction between operating and finance leases. Lessor accounting however remains unchanged and the distinction between operating and finance lease is retained.

2.21 Provisions and contingencies

Provisions are recognized when: (a) SB Corporation has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

2.22 Income taxes

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the SCI.

Deferred tax is provided, using the balance sheet method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the balance sheet method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets which are recognized for all deductible temporary differences and the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the SCI. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities are charged or credited directly to equity.

2.23 Foreign currency transactions

SB Corporation's accounting records are maintained in Philippine Peso. Foreign currency transactions during the year are translated into the functional currency at exchange rates (BSP rate) which approximate those prevailing on transaction dates. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the SCI.

2.24 Events after the Reporting Period

Subsequent events that provide additional information about SB Corporation's financial position at the end of the reporting date (adjusting events) are reflected in the financial statements. Subsequent events that are non-adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with PFRSs requires SB Corporation to make estimates and assumptions that affect the reported amounts of resources, liabilities, income and expenses and disclosure of contingent resources and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. While the estimates are based on the most reliable data available, actual results, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties including:

- The extent to which SB Corporation can maximize the sale and recoveries from the assets it acquires as foreclosed from borrowers; and

- The probability of recovery through successful lawsuits as appropriate against relevant parties.

3.1 Contingencies

SB Corporation is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with counsel handling and monitoring the defense in these matters and is based upon an analysis of potential results.

SB Corporation is a party to various legal cases and except for the BIR Final Assessment Notice (FAN), it does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by the changes in the estimates.

On December 20, 2018, the BIR issued a FAN to SB Corporation for deficiency tax amounting to P124 million. On June 4, 2019, SB Corporation counter filed a Manifestation with Motion to Suspend Proceedings before the Department of Justice (DOJ). After almost two years with no resolution from the DOJ, the Corporations' Board of Directors decided to withdraw the petition and resume the reinvestigation with the BIR. The petition for withdrawal was sent on March 19, 2021.

On the other hand, there are Criminal Complaints for Violation of Batas Pambansa Blg. 22 involving two borrowers that if resolved positively in favor of the SB Corporation will result in positive collection of P46 million.

3.2 Financial asset at amortized cost

SB Corporation classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as financial asset at amortized cost. This financial asset is initially measured at fair value plus transaction cost. Contractual cash flows are solely payment of principals and interest and held under a hold to collect model. Subsequent measurement is carried at amortized cost. Classification of financial assets requires significant judgment. In making this judgment, SB Corporation evaluates its intention and ability to hold such investments to maturity. If the Corporation fails to keep these investments to maturity other than in certain specific circumstances, it will be required to reclassify the entire portfolio to available-for-sale investments. The investments would, therefore, be measured at fair value and not at amortized cost

3.3 Allowance for loan impairment/doubtful accounts

SB Corporation reviews its loans and receivables to assess potentially uncollectible receivables annually. In determining the level of allowance, it makes judgments as to whether there are observable development and information indicating a measurable decrease in the estimated future cash flows from the loans and receivables. SB Corporation observes BSP criteria and guidelines on the classification of receivables in establishing specific loan loss reserves/provisioning.

3.4 Impairment loss on property and equipment

SB Corporation assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. It recognizes an impairment loss/provision for probable loss whenever the carrying amount of an asset exceeds the recoverable amount.

4. CASH AND CASH EQUIVALENTS

The account consists of the following:

	2020	2019 (As restated)
Cash on hand	**4,491**	24,928
Cash in bank-Local Currency	**7,554,996,124**	220,583,583
Cash in bank-Foreign Currency	**580,150**	613,095
Cash equivalents	**0**	4,999,549
	7,555,580,765	226,221,155

Cash in bank pertain to deposits with government banks for payroll and corporate operating fund which earn interest at rates based on average monthly deposit balances. It also includes high yield savings account maturing within 90 days from transaction date with interest ranging from 1.20 to 1.75 per cent per annum for 2020 and 3.11 to 3.85 per cent per annum for 2019 *(Note 2.3).*

Significant increase of the Corporation's cash in bank pertains to the additional capital infusion made by the National Government (NG) for relending to the MSME sector *(Note 20).*

Cash equivalents includes short term treasury bills maturing within 90 days from the time of purchase.

5. INVESTMENTS

This account consists of the following:

	2020	2019 (As restated)
Financial Assets at Fair Value through Surplus/Profit or Deficit/Loss	**252,535,859**	287,084,952
Financial Assets at amortized cost	**1,071,436,795**	589,859,893
Investments in Joint Ventures	**18,212,500**	19,972,500
Other investments	**146,500**	146,500
	1,342,331,654	897,063,845
Short-term	**569,584,074**	11,468,965
Long-term	**772,747,580**	885,594,880

Financial Assets at Fair Value through Surplus/Profit or Deficit/Loss (FVTPL)

	2020	2019 (As restated)
Asian Development Bank (ADB)	**21,287,560**	40,875,025
Kreditanstalt fur Wiederaufbau (KfW)	**231,248,299**	246,209,927
	252,535,859	287,084,952
Current	**14,583,986**	11,468,965
Non-current	**237,951,873**	275,615,987

Financial asset at FVTPL represents the fair value of the Foreign Exchange Risk Cover (FXRC) of SB Corporation's borrowings from multilateral agencies amounting to P754.44 million in CY 2020 and P866.62 million in CY2019 which is treated as derivative financial instrument.

Under a MOA between SB Corporation and the NG through the DOF, the latter guarantees and assumes the foreign exchange risk relating to SB Corporation's foreign currency denominated borrowings from the ADB and KfW. In consideration thereof, SB Corporation shall pay the NG a guarantee fee of one per cent per annum and an FXRC fee of three per cent per annum.

Financial Assets at amortized cost

Funds which are not yet earmarked for loan releases, operating and other administrative expenses are temporarily invested in government securities consisting of short-term Treasury Bills and HYSA, Fixed Rate Treasury Notes and Retail Treasury Bonds, Tier 2 Capital Notes with the Land Bank of the Philippines (LBP), Bureau of the Treasury (BTr) and Development Bank of the Philippines (DBP), respectively. These investments which have various maturity dates over three months from transaction date at rates ranging from 1.50 per cent per annum to 6.50 per cent per annum for CY 2020 consist of the following:

	2020	2019 (As restated)
Investments in treasury bills	**550,000,000**	0
Investments in treasury bonds	**416,436,795**	484,859,893
Capital Notes	**105,000,000**	105,000,000
	1,071,436,795	589,859,893
Short-term	**555,000,088**	0
Long-term	**516,436,707**	589,859,893

Investments in Joint Ventures

Investments in Joint Ventures represent the Corporation's Joint Ventures Program, an equity financing program for SMEs which calls for the participation of a private sector venture or an equity capital company which will match the investment of SB Corporation in selected SME corporations. The amount is presented net of its allowance amounting to P10.485 million and P4.225 for CYs 2020 and 2019, respectively.

SB Corporation, in cooperation with various SME corporations invested P8.760 million in preferred shares and P19.938 million in common shares holding 11.25 to 43.75 per cent ownership with minor controlling interest and returns to investments through dividends. The nature of businesses under the investment account were engaged in the manufacture of acoustic and padded fabric wall and ceiling system; Citronella Home Essences and Insect Repellant organic fertilizer manufacturing; fabrication, rental and trading of generator sets, catering and lodging house services; seaweeds production; micro propagation of planting materials; and commercial production of ACTIcon.

SB Corporation invested in the following companies:

Venture Partners	Amount	Allowance for impairment	Carrying Amount
Agricultural Inoculants Phils.	2,000,000	2,000,000	0
Greentop Seaweeds Production Co., Inc.	725,120	725,120	0
Starlight Homessences Inc.	3,500,000	3,500,000	0
Walls In Motion, Inc.	3,712,500	0	3,712,500
REG Supreme Power Trading, Inc.	3,760,000	3,760,000	0
Epifanie Ventures, Inc.	5,000,000	500,000	4,500,000
Elbitech, Inc.	5,000,000	0	5,000,000
Binhi, Inc.	5,000,000	0	5,000,000
Balance as at December 31, 2020	**28,697,620**	**10,485,120**	**18,212,500**

Venture Partners	Amount	Allowance for impairment	Carrying Amount
Agricultural Inoculants Phils.	2,000,000		2,000,000
Greentop Seaweeds Production Co., Inc.	725,120	725,120	0
Starlight Homessences Inc.	3,500,000	3,500,000	0
Walls In Motion, Inc.	3,712,500	0	3,712,500
REG Supreme Power Trading, Inc.	3,760,000		3,760,000
Epifanie Ventures, Inc.	5,000,000		5,000,000
Elbitech, Inc.	2,500,000	0	2,500,000
Binhi, Inc.	3,000,000	0	3,000,000
Balance as at December 31, 2019	**24,197,620**	**4,225,120**	**19,972,500**

Dividends receivable from joint venture investments are as follows:

	2020	2019 (As restated)
REG Supreme Power Trading, Inc.	**0**	1,353,600
Epifanie Ventures, Inc.	**850,000**	1,200,000
	850,000	2,553,600

Other investments pertain to PLDT stocks received upon application of telephone lines amounting to P0.147 million as at December 31, 2020.

6. RECEIVABLES

This account consists of the following:

	2020	2019 (As restated)
Accounts receivable	**36,841,442**	37,277,704
Notes receivable	**7,363,316,815**	5,876,952,661
Interest receivable	**53,855,812**	46,314,163
Intra-agency receivable	**223,314,105**	3,952,231
Dividends receivable *(See Note 5)*	**850,000**	2,553,600

(Forward)

	2020	2019 (As restated)
Subrogated claims receivable	**0**	78
Sales contract receivable	**14,838,195**	17,674,655
Other receivables	**2,260,803**	2,479,376
	7,695,277,172	5,987,204,468
Allowance for impairment of accounts receivable	**(1,864,527)**	(895,264)
Allowance for impairment of notes receivable	**(869,476,368)**	(952,438,114)
Allowance for impairment of subrogated claims receivable	**0**	(78)
	(871,340,895)	(953,333,456)
Total carrying amount	**6,823,936,277**	5,033,871,012
Current	**2,239,646,332**	2,838,004,020
Non-current	**4,584,289,945**	2,195,866,992

Accounts Receivable (net of allowance) consists of the following:

	2020	2019 (As restated)
Agricultural Credit Policy Council (ACPC) re:		
Administrative fee for the Comprehensive Agricultural Loan Fund (CALF)	**8,930,000**	8,504,736
Participating financial institution's share in expenses relative to foreclosure in the management of acquired assets	**5,554,820**	4,988,754
Lease purchase for officers	**16,004,595**	17,577,942
Lease purchase - resigned officers	**1,500,000**	2,067,758
Foreclosure-related expenses	**1,282,710**	1,194,099
DST remittance for MSME Notes	**0**	294,150
Advances made for contract-of-service employees	**160,607**	161,530
Calamity Loan granted to employees	**244,183**	293,471
Travel Fund as required by the DBM-PhilGeps	**1,300,000**	1,300,000
	34,976,915	36,382,440

ACPC re: CALF represents unclaimed administrative fees as at June 1, 2001 from ACPC for the CALF which was transferred to Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) on June 18, 2001. Pursuant to Section 5 of Department of Agriculture (DA) Administrative Order No. 10, series of 2001, the transfer of said CALF carries an obligation for QUEDANCOR, attached as a colatilla, to answer for the liability of such fund in accordance with the Memorandum of Agreement (MOA) between DA - ACPC and the Guarantee Fund for Small and Medium Enterprises (GFSME, now SB Corporation) that is the payment of administrative fees. However, when Quedancor was closed, their assets were put under the receivership of the PDIC. To date, the Corporation is still awaiting PDIC's resolution of the payment of Quedancor's creditors.

SB Corporation has a car plan program for officers under a lease purchase arrangement. The amortization is periodically deducted from the payroll based on the preferred amortization period but not to exceed 10 years. Once an officer resigns before the maturity of the lease purchase arrangement, the balance is to be deducted from all payables to the officer. In the event that such payables are not sufficient to fully pay the car plan, the balance may be amortized for a maximum period of five years under the prevailing market interest rate.

Notes receivable refers to loans extended by SB Corporation to banks, other financing institutions and MSME direct borrowers at an interest rate ranging from zero-interest rate to 30 per cent per annum for relending under its special lending programs for MSMEs.

	2020	2019 (As restated)
Regular Wholesale-SME and MICRO	**644,660,362**	979,933,121
Regular Retail	**629,509,959**	852,146,106
Enterprise Rehabilitation Facility (ERF) Retail	**25,039,604**	5,970,957
Bayanihan 2 CARES	**581,900,286**	0
P3 Wholesale	**3,545,878,059**	2,923,861,717
P3 Retail	**94,118,264**	130,918,946
P3 CARES	**972,683,213**	0
Wounded in Action and Killed in Action (WIA-KIA)	**0**	31,633,000
Others	**50,700**	50,700
	6,493,840,447	4,924,514,547

While SB Corporation reviews its notes receivables to assess potentially uncollectible receivables annually, a monthly accrual of allowance for impairment accounts is recognized in the financial statements to cushion the one-time lump sum effect of the yearly provisioning requirement. The said monthly accruals of allowance for impairment has been budgeted and reflected in Department of Budget and Management (DBM) Form No. 3 under the Non-Cash items of the 2020 approved COB of SB Corporation.

The periodic impairment complies with the general provisioning requirement of the BSP. Upon review of the annual provisioning requirement, the booked provisioning is adjusted to the required provisioning for the year whereby either additional allowances are recognized or reversed in the event a decrease in provisioning requirement is encountered.

Interest receivable represents accrued interest receivable from the following investments in government-issued debt instruments and notes receivable that are still to be collected at the end of the year.

	2020	2019 (As restated)
Short-term investments	**6,614,353**	146,009
Financial assets at amortized cost	**4,041,900**	4,085,998
Notes receivable – loans	**43,199,559**	42,082,156
	53,855,812	46,314,163

Intra-agency receivable

	2020	2019 (As restated)
Due from P3	**19,993,490**	831,701
Due from SB	**203,320,615**	3,120,530
	223,314,105	3,952,231

The account pertains to intra-fund receivables/payables between funds representing advances regularly monitored on a periodic basis.

Sales contract receivable are receivables from disposal of ROPA through term amortizations amounting to P14,838,195 and P17,674,655 as of December 31, 2020 and 2019, respectively.

Other receivables include the following:

	2020	2019 (As restated)
Disallowances/Charges	**1,018,690**	1,113,067
Due from officers and employees	**1,242,113**	1,366,309
	2,260,803	2,479,376

Disallowances pertain to COA disallowances which are already final and executory, booked as receivables and being collected from responsible officers and employees thru salary deductions.

7. INVENTORIES

This account pertains to office supplies inventory held for consumption awaiting issuance to end-users.

8. NON-CURRENT ASSETS HELD FOR SALE

This account consists of ROPA through foreclosure of mortgaged properties, dacion en pago arrangements, or SCR rescissions, where the foremost objective is immediate disposal generally under cash or term sale transactions. Details are as follows:

	2020	2019 (As restated)
Non-current assets held for sale	**46,261,439**	66,874,663
Allowance for impairment	**(9,056,479)**	(12,145,881)
	37,204,960	54,728,782

9. OTHER ASSETS

This account consists of the following:

	2020	2019 (As restated)
Prepayments	**5,324,903**	11,008,092
Deposits	**1,487,188**	1,386,589
Others	**5,632,462**	4,757,462
	12,444,553	17,152,143

(Forward)

	2020	2019 (As restated)
Accumulated impairment losses	**(1,862,277)**	(1,862,277)
Carrying amount	**10,582,276**	15,289,866
Current	**5,324,903**	11,008,092
Non-current	**5,257,373**	4,281,774

Deposits pertain to security and guarantee deposit for rental and other contractual obligations.

Others consist of unserviceable properties with an ongoing implementation of disposal plan.

10. PROPERTY AND EQUIPMENT – NET

This account consists of the following:

	Buildings/ Structures Lease Asset Improvement	**Furniture and Other Equipment**	**Transportation Equipment**	**Total**
Cost				
January 1, 2020	153,699,156	32,848,550	15,108,741	201,656,447
Additions	989,717	1,308,651	0	2,298,368
Adjustments	(77,273)	0	0	(77,273)
Reclassification	2,032,397	0	0	2,032,397
December 31, 2020	**156,643,997**	**34,157,201**	**15,108,741**	**205,909,939**
Accumulated depreciation				
January 1, 2020	100,615,441	22,163,977	10,648,354	133,427,772
Additions	5,207,406	2,645,578	892,543	8,745,527
Adjustments	(15,647)	(53,835)	0	(69,482)
Reclassification	594,459	0	0	594,459
December 31, 2020	**106,401,659**	**24,755,720**	**11,540,897**	**142,698,277**
Carrying amount, December 31, 2020	**50,242,338**	**9,401,481**	**3,567,844**	**63,211,663**

	Buildings/ Structures/ Lease Asset Improvement	**Furniture and Other Equipment**	**Transport Equipment**	**Total**
Cost				
January 1, 2019	151,823,926	31,974,446	15,108,741	198,907,113
Additions	1,875,230	3,645,416	0	5,520,646
Disposals	0	(2,771,312)	0	(2,771,312)
December 31, 2019	**153,699,156**	**32,848,550**	**15,108,741**	**201,656,447**
Accumulated depreciation				
January 1, 2019	95,636,557	21,936,976	9,646,810	127,220,343
Additions	4,978,884	2,687,176	1,001,544	8,667,604
Disposals	0	(2,460,175)	0	(2,460,175)
December 31, 2019	**100,615,441**	**22,163,977**	**10,648,354**	**133,427,772**
Carrying amount, December 31, 2019	**53,083,715**	**10,684,573**	**4,460,387**	**68,228,675**

11. INVESTMENT PROPERTY

	2020	2019 (As restated)
Land	**18,240,723**	13,013,717
Accumulated impairment losses	**(941,019)**	(440,793)
Net value	**17,299,704**	12,572,924
Buildings	**14,084,099**	10,091,386
Accumulated depreciation	**(11,503,435)**	(9,847,887)
Net value	**2,580,664**	243,499
	19,880,368	12,816,423

The Corporation's investment properties arise from acquired assets from defaulted accounts. These are assets that are not available for immediate sale as the same include assets under litigation making its sale highly improbable.

12. DEFERRED TAX ASSETS

This account consists of the following:

	2020	2019 (As restated)
Excess minimum corporate income tax	**10,262,956**	4,905,319
Net operating loss carryover	**3,606,314**	0
Provision for impairment losses	**131,506,701**	118,564,635
Unrealized losses on Foreign Exchange (ForEx)	**40,159,282**	35,583,402
	185,535,253	159,053,356

13. FINANCIAL LIABILITIES

This account consists of the following:

	2020	2019 (As restated)
Payables	**57,595,203**	131,066,202
Bills/Bonds/Loans payable	**776,100,688**	890,169,279
Financial liabilities designated at Fair Value through Surplus/Profit or Deficit/Loss	**237,620,495**	246,585,575
	1,071,316,386	1,267,821,056
Current	**191,326,131**	269,202,408
Non-current	**879,990,255**	998,618,648

Payables consist of the following:

	2020	2019 (As restated)
Accounts payable	**39,240,866**	22,039,295
Notes payable	**17,789,448**	107,221,186
Interest payable	**564,889**	1,805,721
	57,595,203	131,066,202

Accounts payable is used to recognize acquisition of goods or services in the normal course of trade and business operation that remains to be unpaid as at the end of the year.

	2020	2019 (As restated)
SB Regular	**35,463,804**	21,993,630
P3	**3,777,062**	45,665
	39,240,866	22,039,295

Notes payable represents the obligations of SB Corporation to various financial institutions arising from its issuance of MSME Notes in the nature of promissory notes deemed as alternative compliance to the mandatory allocation provision under Section 13 of RA No. 6977, as amended by RA Nos. 8289 and 9501. The promissory notes carry interest rates that range from 1.50 per cent to 3.10 per cent per annum for 2020.

Details of the account as follows:

	2020	2019 (As restated)
Current portion	**589,448**	89,431,738
Non-current portion	**17,200,000**	17,789,448
	17,789,448	107,221,186

Interest Payable represents accrued interest expense on domestic and foreign borrowings as follows:

	2020	2019 (As restated)
Asian Development Bank (ADB)	**117,085**	148,601
International Fund for Agricultural Development (IFAD)	**362,691**	394,229
Notes payable - MSME Notes	**85,113**	1,262,891
	564,889	1,805,721

Bills/Bonds/Loans Payable consists of SB Corporation's borrowings as follows:

	2020	2019 (As restated)
Loans payable – Domestic -IFAD	**21,663,961**	23,547,784
Loans payable – Foreign		
ADB	**181,307,352**	288,849,365
KfW	**573,129,375**	577,772,130
	776,100,688	890,169,279
Current	**133,307,647**	131,063,982
Non-current	**642,793,041**	759,105,297

The loan from the International Fund for Agricultural Development (IFAD) is a subsidiary loan from the Republic of the Philippines (ROP) in peso amount equivalent to 10 million Special Drawing Rights (SDR) to finance the implementation of the Rural Micro-Enterprise Promotion Programme (RuMEPP). The loan is a 25-year term inclusive of eight years grace period on principal repayment and carries an interest rate of 4.75 per cent per annum payable on a semi-annual basis. The RuMEPP was completed in December 31, 2014.

The loan from ADB is a US$25 million (JPY2.746 billion) denominated loan for SME Development Support Project guaranteed by the ROP. The loan is on a 15-year term payable with a grace period of 36 months and carries an interest rate of JPY LIBOR plus 0.60 per cent per annum and a commitment fee of 0.75 per cent per annum on the unutilized portion of the loan. The conversion rate of JPY to Peso as at December 31, 2020 was at P0.4658. The loan was fully availed of in 2009.

The loan from the KfW is a €11.7 million denominated loan for the purpose of financing loan for micro, small and medium-sized private enterprises located mainly in Mindanao and Visayas. The loan is guaranteed by the ROP and bears an interest rate of 0.75 per cent per annum plus a commitment fee of 0.25 per cent per annum based on the undisbursed loan amount. The loan is being amortized on a semi-annual basis for 40 years with a principal grace period of 10 years. The conversion rate of Euro to Peso as at December 31, 2020 is P58.7825. The loan was fully availed of in 2010.

In consideration of the government guarantee and assumption of the foreign exchange risk for both loans, SB Corporation in addition to the guarantee fee of one per cent, shall pay the NG a foreign exchange risk cover (FXRC) fee of three per cent or the difference between the weighted average interest rate (WAIR) and total cost of funds (which includes ADB cost, guarantee fee and SB Corporation's operational expense/spread), whichever is higher based on the outstanding principal balance of the loan.

As at December 31, 2020, the outstanding balance of ADB and KfW loans amounted to JPY389.239 million and €9.750 million, respectively.

Financial Liabilities Designated at Fair Value through Surplus/Profit or Deficit/Loss

	2020	2019 (As restated)
Asian Development Bank (ADB)	**7,394,298**	15,151,108
Kreditanstalt fur Wiederaufbau (KfW)	**230,226,197**	231,434,467
	237,620,495	246,585,575
Current	**17,623,281**	24,861,672
Non-current	**219,997,214**	221,723,903

Financial liabilities designated at FVTPL represents the fair value of the FXRC of SB Corporation's borrowings from multilateral agencies amounting to P754.44 million in 2020 and P866.62 million in 2019 which is treated as derivative financial instrument.

Under a MOA between SB Corporation and the NG through the DOF, the latter guarantees and assumes the foreign exchange risk relating to SB Corporation's foreign currency denominated borrowings from the ADB and KfW. In consideration thereof, SB Corporation shall pay the NG a guarantee fee of one per cent per annum and an FXRC fee of three per cent per annum.

The fair value changes on the FXRC are reported in the SCI. As at December 31, 2020, the outstanding notional amount of FXRC amounted to JPY389.239 million and €9.750 million.

As at December 31, 2020 and 2019, the carrying values of SB Corporation's financial assets and liabilities as reflected in the SFP and related notes approximate their respective fair value as at reporting date. Specifically, the financial liability at FVTPL is carried at its Level 1 fair value of P237.620 million and P246.586 million as at December 31, 2020 and 2019, respectively.

14. INTRA-AGENCY PAYABLES

This account comprises obligations or liabilities due to government agencies/institutions relating to current or prior period that are unpaid as at the reporting date, such as payments for statutory and regulatory obligations. It also includes payable to other National Government Agencies (NGA) or to other funds as follows:

	2020	2019 (As restated)
Due to BIR	**7,201,218**	11,898,600
Due to GSIS	**999,259**	1,475,427
Due to Pag-ibig	**46,848**	52,272
Due to PhilHealth	**122,356**	83,667
Due to NGAs	**40,000,000**	0
Due to Other Funds	**236,169,676**	4,168,837
	284,539,357	17,678,803
Current	**244,539,357**	17,678,803
Non-current	**40,000,000**	0

The *Due to NGAs* account pertains to the Innovation Fund, a component of the IFAD-funded Rural Agro-Industrial Partnership for Inclusive Development and Growth (RAPID Growth) Project transferred by the Department of Trade and Industry, being the Executing Agency. RAPID is a five-year project which aims to provide strategic enabling conditions for the sustained growth of agriculture-based MSMEs in agricultural commodity value chains with backward linkages to small farmers and job creation effects. The transferred fund to SB Corporation represents the first-year allocation for the Project to be implemented for equity financing in qualified investee SMEs operating in Mindanao.

The *Due to Other Funds* account pertains to intra-fund payables between funds representing advances monitored on a periodic basis.

15. TRUST LIABILITIES

This account pertains to security deposits in the form of performance bonds or cash for guaranty. Said security deposit is issued to SB Corporation by the winning bidder as a guarantee against its failure to meet the obligations in the contract.

16. DEFERRED CREDITS/UNEARNED INCOME

This account refers to unearned income from capitalized interest and charges of a restructured loan. When an account becomes past due and is granted with approved restructuring agreement, accrued interest is recorded with a corresponding set up of the liability account.

	2020	2019 (As restated)
Regular loan agreement	**21,325,847**	19,376,499
Compromise agreement	**2,626,441**	2,796,776
	23,952,288	22,173,275

17. OTHER PAYABLES

	2020	2019 (As restated)
Undistributed collections	**3,603,884**	4,019,925
Dividends payable	**22,658,723**	0
Other payables	**37,273,843**	37,436,044
	63,536,450	41,455,969

Undistributed collections account represents the accumulated unidentified inter-branch deposits made to the SB Corporation bank account which remains unidentified. Proper applications of deposits are subsequently taken up in the books when identification and verification processes are duly satisfied.

Dividends payable represents deficiency dividends for dividend years 2014 and 2015 which will be paid in the first quarter of 2021.

Other payables account consists of amount payable to the Originating Financial Institution (OFI) for their share in the proceeds from sale/disposal of foreclosed/acquired properties of SB Corporation wherein OFI has equity. It also includes amount payable for terminated cases wherein the judgment was rendered against the SB Corporation.

18. SHARE PREMIUM

The share premium pertains to the additional paid in capital representing ten per cent excess of par for shares issued by SB Corporation to the NG for the GFSME assets turned over to SB Corporation pursuant to EO No. 28 dated July 30, 2001 which mandated the consolidation of GFSME and Small Business Guarantee Finance Corporation with the latter as the surviving entity.

19. RETAINED EARNINGS

	2020	2019
Beginning balance	**3,143,304,539**	1,868,025,553
Comprehensive income for the year	**1,384,014,970**	1,300,839,623
Dividends	**(55,524,224)**	(19,844,511)
Other adjustments	**115,563,448**	(5,716,126)
Ending balance	**4,587,358,733**	3,143,304,539

Other adjustments pertain to change in the provisioning policy of the Pondo sa Pagbabago at Pag-asenso (P3) implemented within the year resulting in the reduction in booked provisioning of P125.721 million. The difference amounting to P10.158 million is a result of various adjustments arising from prior year's loan application payment for restructuring and special amnesty program.

The ending balance of Retained Earnings (RE) is composed of Appropriated and Unappropriated RE. Appropriated RE balance for 2020 is P4.643 billion. This is the continuing lending fund balance of the P3 fund and a P30 million appropriated fund for the stock dividends declared in 2005, still for issuance.

While Unappropriated Retained Earnings is deficit, it is composed of accumulated net operating income before extra-ordinary losses amounting to P239.685 million and P234.767 million for 2020 and 2019 respectively, and extra-ordinary losses amounting to P300.639 million and P242.614 million for 2020 and 2019 respectively due to translation adjustments of foreign loans and derivative valuation.

	2020	2019
Appropriated Retained Earnings		
Pondo sa Pagbabago at Pag-Asenso (P3)	**4,612,680,084**	3,120,478,012
Appropriated for dividend	**30,673,100**	30,673,100
	4,643,353,184	3,151,151,112

(Forward)

Unappropriated Retained Earnings/(Deficit)		
Accumulated Net income, before extra-ordinary gains/(losses)	**239,685,124**	234,767,080
Pondo sa Pagbabago at Pag-Asenso (P3)	**4,959,207**	0
	244,644,331	234,767,080
Extra-Ordinary Gains/(Losses)		
Net Unrealized Gain/(Loss) from Changes in Fair Value of Financial Instruments	**(107,079,760)**	(65,694,193)
Net Unrealized Gain/(Loss) on Foreign Exchange (FOREX) Translation	**(193,559,022)**	(176,919,460)
	(300,638,782)	(242,613,653)
	(55,994,451)	(7,846,573)
	4,587,358,733	3,143,304,539

20. STOCKHOLDERS' EQUITY

SB Corporation has an authorized capital stock of P10 billion divided into 80 million common shares and 20 million preferred shares both with a par value of P100 per share.

Details of this account are as follows:

	2020		2019	
	Amount	**No. of Shares**	Amount	No. of Shares
Capital stock				
Common shares				
National Government	**7,254,369,200**	**72,543,692**	767,450,700	7,674,507
LBP	**393,611,500**	**3,936,115**	393,611,500	3,936,115
DBP	**218,673,100**	**2,186,731**	218,673,100	2,186,731
Philippine National Bank	**0**	**0**	40,000,000	400,000
GSIS	**46,673,100**	**466,731**	46,673,100	466,731
Social Security System (SSS)	**16,000,000**	**160,000**	16,000,000	160,000
Acquired (Treasury)	**40,000,000**	**400,000**	0	0
	7,969,326,900	**79,693,269**	1,482,408,400	14,824,084
Preferred shares				
SSS	**200,000,000**	**2,000,000**	200,000,000	2,000,000
GSIS	**200,000,000**	**2,000,000**	200,000,000	2,000,000
National Government	**1,593,179,500**	**15,931,795**	0	0
	1,993,179,500	**19,931,795**	400,000,000	4,000,000
	9,962,506,400	**99,625,064**	1,882,408,400	18,824,084
Less: Treasury Stocks	**40,000,000**	**400,000**	0	0
Total Stockholders' Equity	**9,922,506,400**		1,882,408,400	18,824,084

On December 13, 1993, the BOD passed Board Resolution (BR) No. 102 which provided the terms and conditions of the preferred stock, to wit: (a) with a fixed annual dividend of eight per cent; (b) with participating rights as to dividends; (c) with voting rights; (d) convertible into common stocks within ten years from date of issue at the option of the holder; and (e) with redemption rights after the lapse of the ten (10) year period from date of issue at the option of the holder. The redemption price shall be based on the adjusted book value of the stock at the time of redemption.

On September 26, 2003, the BOD passed and approved BR No. 1074 which superseded BR No. 102, series of 1993, and ratified during the 10th Annual Stockholders Meeting on January 29, 2005. The approved new features of the preferred stocks are as follows:

a. Preference in the payment of dividends in accordance with the principle of equity with common stockholders in the declaration and distribution of corporate dividends;

b. Preference in the claim against corporate asset in the event of dissolution or bankruptcy;

c. Each share of its outstanding preferred stocks is entitled to a vote during stockholders meeting;

d. Entitled to exercise its preemptive right to increase shareholdings through the equivalent unissued common shares;

e. Entitled to a Board seat in accordance with Section 11 and 3 of RA No. 6977, as amended by RA No. 8289; and

f. The appropriated portion of the retained earnings in the amount of P61.346 million represents unissued shares corresponding to the cumulative dividends of the preferred shareholders (GSIS and SSS) representing its cumulative dividends from January 2002 to December 31, 2007. In 2013, the amount of P30.673 million in previously appropriated retained earnings were released to GSIS upon presentation of its certificate of acceptance.

On August 5, 2019, BR No. 2019-08-2803 approved the transfer of all guarantee-related functions, programs, funds, assets and liabilities of SB Corporation to the PHILGUARANTEE pursuant to EO 58, series of 2018. Total assets transferred amounted to P37.49 million taken from the equity of the NG.

On November 10, 2020, the NG in compliance with the provisions of RA No. 11494, otherwise known as the Bayanihan Act 2, infused capital in SB Corporation amounting to P8.080 billion aimed as additional funding for its CARES program and other lending facilities of the Corporation.

Treasury stocks were acquired from the redemption of the 400,000 common shares of PNB paid at its par value of P100 per share, net of the penalty for unpaid subscriptions. Payment was made on December 29, 2020 *(Note 21.3).*

21. INCOME

21.1 Service and Business Income

Being a government-owned and controlled corporation primarily mandated to provide, among others, financing to the MSME sector, income generation is mostly derived from its lending operation, which includes both service and business income.

a. Service Income

	2020	2019
Processing fees	**19,807,952**	19,578,872
Fees and Commissions income	**139,381,825**	0
	159,189,777	19,578,872

b. Business Income

	2020	2019
Interest income	**219,371,406**	307,553,217
Fines and penalties	**6,934,605**	9,383,216
Dividend income	**150,000**	500,000
Rent/Lease income	**24,000**	372,000
Management fees	**0**	782,069
Guarantee fees	**0**	660,718
Other business income	**2,299,463**	19,665,720
	228,779,474	338,916,940

21.2 Gains

This account consists of the following:

	2020	2019
Gain on Foreign Exchange (ForEx)	**47,021,198**	102,882,578
Gain on Sale of Investment Property	**9,717,017**	5,740,977
Gain from Changes in Fair Value of Financial Instruments	**99,196,736**	99,216,248
Gain on Sale/Redemption/Transfer of Investments	**0**	2,743,445
	155,934,951	210,583,248

Gain on ForEx account includes realized gains amounting to P3.404 million and P0.725 million for 2020 and 2019, respectively. It also includes unrealized gains due to ForEx translation of underlying foreign loans amounting to P43.617 million and P102.157 million for 2020 and 2019, respectively.

Gain from changes in fair value of financial instruments includes realized gains upon payment of ForEx risk cover amounting to P6.997 million for 2019. It also includes unrealized gains due to valuation of derivatives and deferred option premium amounting to P99.197 million and P92.219 million for CY 2020 and 2019, respectively.

21.3 Other Non-Operating Income

Miscellaneous income includes penalty for unpaid subscription of PNB in the amount of P5.240 million. This was deducted from the proceeds of the redemption value of its common shares made on December 29, 2020 *(Note 20).* It also includes income from Baguio Revitalization Actions for a Vibrant Economy – Economic Stimulus Package (BRAVE-ESP) facility and other miscellaneous income.

22. EXPENSES

22.1 Personnel Services

	2020	2019
Salaries and wages	**133,905,345**	125,793,772
Other compensation	**43,830,135**	40,081,390
Personnel benefit contributions	**36,992,112**	34,375,825
Other personnel benefits	**9,744,339**	6,032,755
	224,471,931	206,283,742

22.2 Maintenance and Other Operating Expenses

	2020	2019
Professional services	**59,494,211**	59,488,709
Taxes, insurance premiums and other fees	**15,049,553**	19,831,168
Rent/Lease expenses	**9,766,354**	10,127,240
Communication	**5,244,112**	4,862,261
Confidential, intelligence and extraordinary	**4,864,498**	7,476,910
Repairs and maintenance	**4,142,271**	4,682,669
Supplies and materials	**3,859,957**	7,112,365
General services	**2,882,432**	2,798,233
Utility	**2,680,507**	3,348,130
Travelling	**2,355,644**	5,540,139
Representation expenses	**1,425,751**	3,408,738
Litigation/Acquired assets expenses	**1,419,206**	1,262,875
Advertising, promotional and marketing	**738,342**	3,880,737
Printing and publication expenses	**311,749**	482,544
Membership dues and contributions	**111,229**	60,433
Subscription expenses	**104,843**	41,618
Training and scholarship	**71,047**	1,914,724
Donation	**52,241**	0
Other maintenance and operating expenses	**4,998,154**	2,553,110
	119,572,101	138,872,603

Significant decrease in the *Maintenance and other operating expenses* pertains to savings generated from the decreased mobility and cancelled activities as a result of the COVID-19 pandemic. During the onset of the pandemic, the NCR went into a close to three months lockdown.

22.3 Financial Expenses

	2020	2019
Interest	**6,551,980**	14,466,602
Guarantee fees	**8,054,869**	9,647,463
Bank charges	**442,198**	446,881
Trusteeship fees	**68,044**	3,693
Other financial charges	**126,500**	598,454
	15,243,591	25,163,093

Significant decrease in the interest expense pertains to the decrease in the outstanding MSME notes of the Corporation as a result of the expiration of the provision for mandatory allocation to the MSME wherein existing availments are awaiting maturity.

22.4 Non-Cash Expenses

	2020	2019
Losses	**202,114,483**	317,073,569
Impairment loss	**124,661,104**	131,269,474
Depreciation	**9,141,260**	9,066,511
	335,916,847	457,409,554

Losses are further broken down as follows:

	2020	2019
Realized loss on ForEx Translation	**584,357**	1,965,050
Realized loss on Derivatives	**662,497**	0
Loss on sale of PPE	**0**	324,449
Loss on sale/redemption/transfer of investments	**28,978**	2,974,244
Total realized loss	**1,275,832**	5,263,743
Unrealized loss due to ForEx Translation	**60,256,348**	62,222,414
Unrealized loss due to valuation of derivatives and deferred option	**140,582,303**	249,587,412
Total unrealized loss	**200,838,651**	311,809,826
	202,114,483	317,073,569

23. INCOME TAX

23.1 Regular Corporate Income Tax (RCIT)

Particulars	2020	2019
Net income before income tax	**1,354,842,624**	1,246,010,885
Permanent differences		
Non-deductible expenses:		
Maintenance and other operating expenses-P3	**70,040,793**	52,298,712
(Forward)		

Particulars	2020	2019
Interest arbitrage limitation	**6,551,980**	14,466,602
Accounts written off	**(77,599,047)**	0
Non-taxable income		
Subsidy from NG – P3	**(1,500,000,000)**	(1,500,000,000)
Interest income on government securities	**(39,279,441)**	(39,952,496)
Interest income on bank deposits	**(849,455)**	(319,672)
Accounting income subject to tax	**(186,292,546)**	(227,495,969)
Temporary differences		
Provision for impairment of loans/acquired properties	**124,661,104**	131,269,474
Unrealized net loss on ForEx Translation	**16,639,561**	(39,935,041)
Unrealized net loss on Derivative Valuation	**41,385,567**	157,368,107
Taxable income	**(3,606,314)**	21,206,571
Tax rate	**27.5%**	30%
Tax due	**0**	6,361,971

23.2 Minimum Corporate Income Tax (MCIT)

Particulars	2020	2019
Gross revenue	**405,957,740**	374,099,374
Less: Finance charges	**15,204,976**	25,115,830
Gross income	**390,752,764**	348,983,544
Reconciling Items:		
Investment in government securities	**(39,279,441)**	(39,952,496)
Interest income on bank deposits	**(849,455)**	(319,672)
Interest arbitrage limitations	**6,551,981**	14,466,602
Taxable gross income	**357,175,849**	323,177,978
MCIT rate	**1.5%**	2%
MCIT due	**5,357,637**	6,463,560
Available tax credits		
Creditable withholding tax	**(142,326)**	(1,754,756)
Prior year's income tax payments	**(5,215,311)**	(4,708,804)
Tax due	**0**	0

23.3 Income Tax Benefit Computation

Particulars	Amount
Deferred tax asset – allowance for impairment accounts (AIA)	
2020 provision	124,661,104
Less: Accounts written off	77,599,047
Provision net of accounts written off	47,062,057
Tax rate	27.5%
Income tax benefit– AIA for 2020	**12,942,066**
Deferred tax asset – AIA, January 1, 2020	118,564,635
Deferred tax asset – AIA, December 31, 2020	**131,506,701**
Financial asset at FVTPL	14,915,364
Tax rate	27.5%
Deferred tax liability – FA at FVTPL, December 31, 2020	**4,101,725**

23.4 MCIT Schedule

			Minimum corporate income tax			
Year Occurred	**Available until**	**Excess MCIT Prior Years**	**Excess MCIT Current Year**	**Excess MCIT over Normal Income Tax**	**Expired /Used portion of excess MCIT**	**Balance MCIT still allowable tax credit**
2020	2023	0	5,357,637	0	0	5,357,637
2019	2022	101,588	0	0	0	101,588
2018	2021	4,803,731	0	0	0	4,803,731
Total		**4,905,319**	5,357,637	0	0	**10,262,956**

23.5 Deferred Tax Asset And Liabilities

The deferred tax assets and liabilities relate to the following as at year-end:

	Statement of Financial Position		**Statement of Comprehensive Income**	
	2020	2019	**2020**	2019
Deferred tax assets				
MCIT	**10,262,956**	4,905,319	**0**	0
NOLCO	**3,606,314**	0	**3,606,314**	0
Provision for impairment	**131,506,701**	118,564,635	**12,942,066**	39,380,842
Unrealized losses on forex	**40,159,282**	35,583,402	**4,575,878**	(11,980,513)
	185,535,253	159,053,356	**21,124,258**	27,400,329
Deferred tax liabilities				
Financial asset at FVTPL	**4,101,725**	12,149,813	**(8,048,088)**	(33,790,380)
Net deferred tax assets	**181,433,528**	146,903,543		
Net income tax benefit			**29,172,346**	61,190,709

24. SUBSIDY FROM NATIONAL GOVERNMENT

Pondo sa Pagbabago at Pag-Asenso (P3)

P3 is the Duterte Administration’s flagship program for providing economic and employment opportunities through the encouragement of entrepreneurship. The program aims to provide microenterprises with an alternative source of financing that is easy to access and at a reasonable cost to boost the development of entrepreneurship in the MSME sector.

CY 2020 is P3’s fourth year of operation. P3 funding is included as a Tier 1 funding of P1.0 billion with a Tier 2 funding of P500 million. The mobilization fund for the year was still five per cent of the subsidy.

Presented below is the two-year comparative fund balance with breakdown of expenses incurred for the program implementation:

	2020	2019
Receipts	**1,500,000,000**	1,500,000,000
Expenses		
Maintenance and other operating expenses		
Security, janitorial and other contracted services	**45,160,593**	28,731,108
Taxes and licenses-DST-P3	**4,492,568**	2,131,876
Rental expense	**4,492,061**	3,266,442
Communication	**3,448,541**	2,117,039
Repairs and maintenance	**2,320,028**	1,621,818
Consultancy	**1,719,200**	0
Supplies and materials	**1,634,110**	4,115,458
Condominium dues	**1,442,343**	1,157,944
Power, light and water	**1,426,055**	1,404,843
Travelling expenses- local-P3	**1,181,432**	2,283,560
Advertising expenses-P3	**735,388**	2,466,417
Gasoline, oil and lubricants expenses	**485,455**	482,413
Business development expense-P3	**69,519**	585,814
Training expenses	**24,604**	623,072
Litigation expenses	**22,950**	0
Business promotion-P3	**17,917**	250,953
Printing and binding expense	**1,076**	138,895
Management committee expense-P3	**691**	2,046
Development cost	**0**	655,087
Miscellaneous expense	**1,366,262**	263,928
	70,040,793	52,298,713
Provision for probable losses	**58,532,569**	101,269,474
	128,573,362	**153,568,187**
Fund balance	**1,371,426,638**	**1,346,431,813**

The fund balance at year-end forms part of the Appropriated Retained Earnings to ensure continuous delivery of activities under the P3 program.

25. RELATED PARTY TRANSACTIONS

Section 10 of RA No. 9178, otherwise known as the *"Barangay Micro Business Enterprises (BMBE) Act of 2002"* had set up an endowment fund of P300.500 million from the Philippine Amusement and Gaming Corporation (PAGCOR) and to be administered by the Small and Medium Enterprise Development (SMED) Council and now MSMED Council, an inter-agency body attached to the DTI. The MSMED Council designated SB Corporation, as the Fund Manager of the BMBE Development Fund per MOA dated December 28, 2004. Total remittance of P300.500 million to SB Corporation was invested in government securities and earned net income of P185.856 million as at December 31, 2019. A total of P20.286 million was disbursed to the different beneficiaries identified by the MSMED Council covering the period 2004 to 2019. On September 26, 2019, the Corporation partially remitted to the Bureau of the Treasury (BTr) an amount of P453.617 million as instructed by MSMED Council dated August 15, 2019. Balance as at December 31, 2019 amounts to P30.453 million.

As at December 31, 2020, the BMBE Development Fund was already fully remitted to the BTr, final remittance in the amount of P33.23 million was done on December 10, 2020.

26. EMPLOYEE BENEFITS

26.1 Provident fund

The provident fund is a defined contribution plan made by both the SB Corporation and its officers and employees. The affairs and business of the fund are directed, managed and administered by its Board of Trustees. Upon retirement, death or resignation, the employee or his heirs will receive from the fund payments equivalent to his contributions, his proportionate share of the corporate contributions and investment earnings thereon.

The creation of the provident fund was authorized by the BOD per BR No. 396, series of 1997, as amended by the DBM in its letter dated March 13, 2003.

26.2 Retirement benefits

Retirement benefits are available to qualified employees under any one of the following laws:

Covering law	Coverage	Available benefits	Paying institution
RA No. 1616	Employees as at May 31, 1977 with 20 years of service (YoS), the last three years of which are continuous	One month basic salary (BS) for the first 20 YoS, 1.5 BS in excess of 20 up to 30 YoS and 2.0 BS in excess of 30 YoS	SB Corporation
RA No. 8291	At least 15 YoS, if below age 60 upon retirement, benefit is payable at age 60	Monthly pension or cash payment	GSIS

26.3 Terminal leave benefits

This represents the cash value of the accumulated vacation and sick leave credits of employees, 50 per cent of which can be monetized.

27. LEASES

SB Corporation leases the premises which serve as its extension offices in Cebu, Davao, Baguio and other desk offices in the different regions of the country for a period of one year and has the option to renew such leases annually under certain terms and conditions.

28. FINANCIAL RISK MANAGEMENT

SB Corporation is exposed to a variety of financial risks such as market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk. The financial risks are identified, measured and monitored through various control mechanisms to assess adequately the market circumstances to avoid adverse financial consequences. This is to ensure that SB Corporation performs its mandate as a government-owned and controlled corporation (GOCC) and not merely duplicates what the private sector and other GOCCs are already doing. This is to likewise optimize the utilization of NG investments by not contributing to the cycle of poverty and debt for small business owners.

SB Corporation's risk management policies for each financial risk factor are summarized below:

a. Credit Risk

In view of its mandate to safeguard the interest of the public and contribute to the promotion of stability in the economy, SB Corporation manages credit risk at all relevant levels of the organization. It defines credit risk as the risk that the loans granted to borrowers and/or other financial institutions will not be paid when due, thereby, causing incurrence of financial losses.

SB Corporation therefore exercises prudence in the grant of loans over its exposures to credit risk, taking into consideration its developmental objectives as mandated by the Magna Carta for MSMEs. This is managed through the implementation of the borrower risk rating and monitoring of loan covenants in the loan agreements. The borrower risk rating is being used, among others, as basis for determining credit worthiness of loan applicants. Further, SB Corporation mitigates such credit risks through the acceptance of eligible collaterals as secondary form of payment.

b. Market Risk–Interest Rate Risk and Foreign Exchange Risk

SB Corporation anticipates, measures, and manages its interest rate sensitivity position to ensure its long-run earning power, build-up of its investment portfolio and avoid economic losses. Special emphasis is placed on the change in net interest income/expense that will result from possible fluctuations in interest rates, changes in portfolio mix and tenor.

SB Corporation manages its currency risk against foreign exchange rate fluctuations on its foreign currency denominated borrowings through a Foreign Exchange Risk Cover (FXRC) secured from the DOF at a given cost for the term of the loan. SB Corporation's exposure to market risk for changes in interest rates relates primarily to its loans from various financial institutions.

c. Liquidity Risk

SB Corporation seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, it intends to use internally generated funds and available long-term and short-term credit facilities.

As part of its liquidity risk management, SB Corporation regularly evaluates its projected and actual cash flows and institutes liquidity risk controls. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fundraising activities may include bank loans and capital market issues.

29. RESTATEMENT AND RECLASSIFICATION

In 2020, the SB Corporation restated its 2019 financial statements to reflect the comparative amount of receivables, investments, and investment property upon reclassification of various accounts. P3 program, Wounded in Action and Killed in Action (WIA-KIA), were reclassified from investment to receivables while foreclosed property was reclassified to investment property upon assessment of the Management.

The effect of this restatement in the comparative financial statements for December 31, 2019 on the affected asset accounts is shown below.

	As restated	As previously reported	Effects of restatement
Current			
Cash and Cash Equivalents	226,221,155	226,221,155	0
Investments	11,468,965	11,468,965	0
Receivables	2,838,004,020	2,839,192,755	(1,118,735)
Inventories	133,421	133,421	0
Non-Current Assets Held for Sale	54,728,782	54,728,782	0
Other Assets	11,008,092	11,008,092	0
	3,141,564,435	3,142,753,170	(1,118,735)
Non-current			
Investments	885,594,880	917,227,880	(31,633,000)
Receivables	2,195,866,992	2,163,045,257	32,821,735
Property and Equipment	68,228,675	68,228,675	0
Investment Property	12,816,423	0	12,816,423
Deferred Tax Assets	159,053,356	159,053,356	0
Other Assets	4,281,774	17,098,197	(12,816,423)
	3,325,842,100	3,324,653,365	1,118,735
	6,467,406,535	**6,467,406,535**	**0**

30. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the BIR under its existing Revenue Regulations (RRs) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

30.1 Requirements under RR No. 15-2010

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2020. The taxes and licenses paid/accrued during the year are as follows:

(a) Withholding taxes

	2020	2019
Taxes on compensation and benefits	**23,758,414**	22,303,507
Value added taxes (VAT)	**3,653,030**	5,057,155
Expanded withholding taxes	**1,156,618**	1,823,942
Gross receipt taxes (GRT)	**8,401,784**	10,887,399
	36,969,846	40,072,003

These taxes, except for taxes on compensation and benefits, were remitted in the SB Corporation's capacity as withholding agent pursuant to RR No. 17-2003 as amended by RR No. 14-2008, with SB Corporation having been determined as one of the top 20,000 corporations and as such, was designated as a withholding agent by the BIR.

(b) Other taxes

	2020	2019
Local		
Real estate taxes	**614,919**	598,246
Corporate community tax	**10,500**	10,500
	625,419	608,746
National		
Capital gains taxes	**0**	2,339,814
Documentary stamp taxes	**33,558,183**	33,350,955
BIR annual registration	**500**	500
	33,558,683	35,691,269
	34,184,102	36,300,015

30.2 Requirements under RR No. 19-2011

In addition to the required information under RR No. 15-2010 on December 9, 2011, the BIR RR No. 19-2011 (and as further amended by RR No. 2-2014 dated January 24, 2014) prescribes the new annual income tax reforms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2020, SB Corporation reported the following revenues and expenses for income tax purposes.

	2020	2019
Revenues		
Operations	**365,828,844**	333,827,206
Expenses		
Cost of services	**8,652,996**	10,649,228

(Forward)

	2020	2019
Itemized Deductions		
Salaries and allowances	**204,997,927**	188,423,390
Bad Debts	**77,599,047**	0
SSS, GSIS, Philhealth and other contributions	**17,940,115**	16,506,353
Other services	**12,665,123**	25,695,246
Taxes and licenses	**9,576,619**	16,713,342
Depreciation	**8,802,108**	8,666,566
Representation and entertainment	**5,901,799**	7,166,995
Communication, light and water	**3,205,845**	4,688,510
Rental	**2,571,358**	3,984,014
Miscellaneous	**2,116,256**	2,401,659
Repairs and maintenance - labor	**1,743,359**	2,758,450
Director's fees	**1,533,889**	1,354,000
Management and consultancy services	**1,429,952**	1,937,143
Transportation and travel	**1,233,469**	3,256,579
Office supplies	**1,233,011**	1,715,439
Insurance	**980,367**	985,950
Janitorial and messengerial services	**947,519**	1,535,844
Fuel and oil	**546,844**	799,056
Security services	**539,188**	618,204
Repairs and maintenance-Materials/supplies	**78,884**	302,400
Charitable contributions	**52,241**	0
Trainings and seminars	**46,444**	1,291,651
Advertising and promotions	**2,954**	1,414,320
Others	**5,037,844**	9,756,299
	360,782,162	301,971,410

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. Real and Other Properties (ROPAs) with net carrying value of P37.205 million as at December 31, 2020 were classified as Non-current Assets Held for Sale (NCAHFS) even though most of the properties are not immediately disposable within one year from the date of classification, contrary to the provisions of Philippine Financial Reporting Standard (PFRS) 5, resulting in the overstatement of NCAHFS and understatement of Investment Property (IP) both by P37.205 million and their corresponding depreciation/impairment loss for the year as well as the accumulated depreciation/impairment are all understated while they are classified as NCAHFS. Moreover, 61 of these ROPAs classified under NCAHFS and one under IP totaling P31.070 million have not been reappraised/tested for any impairment, thus, these assets are not measured at the lower of its carrying amount and fair value less costs to sell, and hampers the disposal of the acquired properties leading to deterioration which is disadvantageous to the SB Corporation.

1.1 Paragraph 6 of PFRS 5 on NCAHFS states that an entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use.

1.2 To be classified as held for sale, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the following requisites under paragraphs 6 to 8 of PFRS 5 must be met:

- *a. Appropriate level of management is committed to a plan to sell the asset;*
- *b. An active program to locate a buyer and complete the plan must have been initiated;*
- *c. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value;*
- *d. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification; and*
- *e. Actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.*

1.3 Verification of the accounting records and schedules revealed that SB Corporation classified various ROPAs in its books of accounts as NCAHFS, although the sale of these properties cannot be completed within one year from its classification, hence, their sale are not highly probable. As at December 31, 2020, the NCAHFS account has a net balance of P37.205 million or a decrease of only P17.524 million or 32 per cent from its December 31, 2019 balance of P54.729 million which shows that majority of the properties under this account were not sold within one year after classification.

1.4 Further, the ROPA disposal plan laid out by the Corporate Support Sector (CSS) of SB Corporation which is a five (5) year Asset Recovery/Disposal Plan proves that not all ROPAs can be classified as NCAHFS. The said Plan shows that only 12 accounts consisting of 19 properties with an appraised value of P21.212 million are planned to be disposed in CY 2021 as compared to the 88 accounts with a value of P37.205 million properties in the NCAHFS accounts as at December 31, 2020.

1.5 In addition, since the properties are classified as NCAHFS, depreciation for the building and structures have not been provided.

1.6 Moreover, verification disclosed that 61 ROPAs recorded under NCAHFS account including one ROPA in the IP account totaling P31.070 million have not been re-appraised at least every other year as required under Section 5 of BSP Circular No. 520, series of 2006. Likewise, impairment testing for these assets have not been conducted. The breakdown of these assets follows:

Group/Unit	No. of ROPAs	Land	Building and Structures	Total
Central Luzon Lending Unit (CLLU)	9	3,087,523	105,882	3,193,405
Mindanao Group (MG)	28	8,449,642	267,535	8,717,177
North Luzon Group (NLG)	14	5,837,168	1,197,466	7,034,634
South Luzon Group (SLG)	6	6,539,295	741,141	7,280,436
Visayas Group (VG)	5	2,144,109	2,700,000	4,844,109
Total	**62**	**26,057,737**	**5,012,024**	**31,069,761**

1.7 Item Number 2, D-ROPA Inspection/Valuation/Reporting of SB Corporation's Policies and Guidelines on the Administration and Disposal of ROPA prescribes that the following time frame should be considered in the appraisal of acquired properties, to wit :

> *1. The re-appraisal shall be every two (2) years to determine its true economic value in compliance with BSP Circular Nos. 520 and 494.*

1.8 Also, Section 3.c(5) of BSP Circular No. 494 dated September 20, 2005, as amended under Section c(5) of BSP Circular No. 520 dated March 20, 2006, provides that:

> *Appraisal of Properties. Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of ROPA to be booked exceeds P5 million, the appraisal must be conducted by an independent appraiser acceptable to the BSP. An in-house appraisal of all ROPAs* ***shall be made at least every other year****: Provided, that immediate re-appraisal shall be conducted on ROPAs which materially decline in value.* (Emphasis ours)

1.9 Further, PAS 40, paragraph 56 states that:

> *After initial recognition, an entity that chooses the cost model shall measure all of its investment properties in accordance with PAS 16's requirements.*

1.10 Furthermore, paragraph 30 of PAS 16 further states that:

> *Property, Plant and Equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment loss.*

1.11 While paragraph 15 of PFRS 5 states that:

> *An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.*

1.12 Classifying properties that are not highly probable to be sold within one year from date of classification is contrary to the provisions of PFRS 5, resulting in the overstatement of NCAHFS and understatement of IP both by P37.205 million. Likewise, the depreciation and impairment loss for the building/structures and land, respectively, for CY 2020 and their corresponding accumulated depreciation and accumulated impairment loss as at December 31, 2020 are all understated.

1.13 On the other hand, the non-reappraisal of ROPAs hampered their ready disposal as their true economic/recoverable value which would be the basis of the selling price is not yet determined. Consequently, non-disposal of ROPA could lead to further deterioration of the property, reduction in its market value/selling price and marketability.

1.14 **We recommended that Management, through Controllership Group (CG) and other concerned Groups, to consider the following:**

a. Develop accounting and reporting policies for ROPAs that are consistent with the financial reporting standards and acceptable industry practice;

b. Reclassify the ROPAs which sale or disposal is not highly probable within one year to IP, taking into consideration the measurement and valuation prescribed for the latter; and

c. Require the Credit and Asset Recovery Support Group (CARSG) to conduct appraisal/impairment testing of the 62 ROPAs to determine their true economic value which is necessary in determining the selling price of the properties for disposal, and coordinate the results of the appraisal with the CG for the proper valuation of IP and NCAHFS in the books.

1.15 Management commented that the SB Corporation will provide the relative accounting and reporting policies by the 3rd quarter of 2021. This will include review of the SB Corporation's existing Policies and Guidelines on the Administration and Disposal of ROPA and the five (5) year ROPA plan taking into consideration the complete and appropriate reporting standards to ensure timely reclassification and valuation of ROPAs as either NCAHFS or IP. Further, part of the review of the ROPA disposal system will be the evaluation of the completeness of the existing monthly ROPA report being provided to ensure the fair presentation of the ROPA account.

1.16 By an audit rejoinder, we appreciate that Management committed to provide the accounting and reporting policies on ROPAs, however, we reiterate that the ROPAs under the NCAHFS account be reclassified to IP, and to take consideration on the depreciation that must have been provided for the building and structures. Also, we emphasize that Management cause the re-appraisal/impairment testing of the 62 ROPAs in accordance with BSP Circular and SB Corporation's internal policy.

2. Various deficiencies noted on the written-off receivables

a. The nine receivable accounts per CARSG's Summary of Accounts Written-Off amounting to P2.853 million differs by P110,000 from what was recorded in the books in the amount of P2.963 million.

2.1 BOD BR No. 2018-11-2648 approved on December 3, 2018, on SB Corporation's Write-off Policies prescribes that:

> ***When loans may be written off***
>
> *There should be no automatic writing-off of loans and other credit accommodations. They shall be subject to proper procedures and supported by the necessary documentary evidences (Annex "A" of BR No. 2018-11-2648 under Paragraph 3.b.5)*
>
> *xxx*
>
> ***Approving Authority***
>
> xxx
>
> *Write-off of loans and other credit accommodations shall be approved by the Board of Directors and notice thereof submitted to BSP within 30 days from approval by the former.*

2.2 On January 5, 2021, the BOD of SB Corporation approved BR No. 2020-12-3021 for the write-off of 109 accounts with an aggregate amount of P86.499 million for which the CG recorded the amount of P65.244 million under JV No. 20-12-380-B dated December 31, 2020. However, upon verification of the corresponding ledgers of the recorded written-off accounts against the CARSG Summary of Account for Write-Off, a net difference of P110,000 was noted, arrived at as follows:

Accounts Written-Off	Per CARSG (as approved by the BOD)	Per Books and as recorded by CG	Difference
A	88,893	85,893	(3,000)
B	909,982	914,982	5,000
C	139,685	144,685	5,000
D	150,285	166,285	16,000
E	305,670	316,670	11,000
F	165,745	170,745	5,000
G	199,704	255,704	56,000
H	334,373	344,373	10,000
I	558,458	563,458	5,000
Total	**2,852,795**	**2,962,795**	**110,000**

2.3 However, the CARSG was not able to reconcile the balances of the accounts for write-off with the accounting records before endorsing them to the Management Committee.

2.4 The CG upon finding out the variance between the Summary of Accounts for Write-off against the book balance of the written-off accounts called the attention of CARSG on March 08, 2021 but the latter has no reply yet to address the variance.

2.5 Furthermore, it was also observed that Management does not have an effective monitoring system on accounts written-off that includes periodic review of individual loan obligor's information and accounts as required by BSP under 4178Q.19: Writing off problem credits of the Manual of Regulations – for Non - Bank Financial Institutions. The database of loan accounts written off should be maintained to easily track any recoveries and will be used for timely reporting of recoveries made on the written off accounts.

2.6 **We recommended that Management, through the concerned Groups:**

a. Revisit the Write-off Policies under BR No. 2018-11-2648 to include the necessary procedures in the writing-off of accounts, as well as the monitoring of accounts written-off;

b. Reconcile the variance noted, also, evaluate the remaining problem credits account which were not recorded as written-off by the CG if zero probability of collectability, and seek the approval of BOD to write-off the remaining balances of the accounts;

c. Create an effective monitoring system to monitor debts written-off and future recoveries and periodically review the individual loan obligor's information;

d. Periodically report to the BOD and senior Management the progress of recovery of accounts written-off; and

e. Prospectively, for accounts to be written off, ensure that the process of reconciliation is properly undertaken by CARSG against the book balances reported by CG before submission to BOD for approval.

2.7 Management commented as follows:

a. SB Corporation is compliant with the policy on Write-Off covered by BR No. 2018-11-2648 which states that *Loan maybe written-off after at least six (6) months from the time the same has been classified as loss and has been fully provided, prior to which collection action may be outsourced*;

b. The outsourced collection of non-moving past due accounts with age two years and above to Collection Agencies (CAs) was approved by the BOD under BR No. 2019-12-2868;

c. The variance of P110,000 was actual cash collections received through the effort of SB Corporation accredited CAs. The P110,000 collections were treated as reduction from the loan principal. This further justifies the essence of SB Corporation's recovery strategies wherein the capital/equity of the Corporation must be preserved, or borrowed funds should be recovered, notwithstanding less income will accrue to the Corporation for said delinquent accounts;

d. The CARSG will request for JV to correct the application of payment received coming from the accounts endorsed to CAs and approved by the Asset Recovery and Collection Committee (ARCCO);

e. Moving forward, the Board reiterated its instruction to write-off all delinquent accounts with age two years and above and classified as loss or with 100 per cent provision. For CY 2021, SB Corporation's target is to write off around P300 million in past due accounts as loss in the books;

f. The SB Corporation has on-going request with their Information Technology Group for the development of a Monitoring System for Accounts Endorsed to CAs. One of the objectives of the requested system is to filter accounts with request for payment arrangement, or accounts which remain uncollected as reference for CARSG's recommendation for write-off;

g. Another request would be for the development of a Monitoring System for Accounts Written-Off. This will provide an updated monitoring of future recoveries for accounts written off;

h. While the system is not yet in place, SB Corporation, as part of the monitoring of accounts written-off, retain a P1.00 outstanding balance of accounts should there be payments received in the future, the same shall be adjusted, and/or said account shall be closed; and

i. Lastly, the SB Corporation, through CARSG, provided quarterly updates/reports to ARCCO on the status of Collection of Accounts written-off and/or for write-off. The report will likewise be presented to the Board through the Finance and Risk Oversight Committee (FROC).

b. The complete documentary requirements to support the written-off receivable accounts amounting to P65.244 million were not submitted for audit casting doubt on the correctness of the accounts written-off.

2.8 Paragraph 15 of PAS 1, states that:

> *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of PFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.*

2.9 The Annex A of the SB Corporation's Write-Off policy as approved by the BOD under BR No. 2018-11-2648 dated December 3, 2018, enumerates the conditions that warrants the write-off and the required documentary requirements, shown below:

Annex A: Possible conditions warranting write off and required documentary requirements:

Conditions	Documentary Requirements
Absence of records or documents to validate/support the claim	Certification from the responsible officials of the corporation (e.g. Lending Units or Legal Services Group) to the effect that there are no records/documents available to validate claim. Other justifications, like in the case of request for write-off due to loss of documents, the circumstances of the loss should be indicated in the certification and that despite diligent efforts, the documents can no longer be found. This is without prejudice to the filing of an administrative case or complaint against the personnel responsible for the loss.
Death of the debtor	Death certificate issued by the Philippine Statistics Authority (formerly National Statistics Office) and those efforts to locate his next of kin or to file a claim against the decedent's estate has failed.
Unknown whereabouts of the debtor, and he/she could not be located despite diligent efforts to find him/her	Certification from the Department of Trade and Industry that the debtor has no registered business Certification from the Securities and Exchange Commission that the debtor-corporation is no longer active, has been ordered closed, or such other circumstances that would indicate collection from the debtor is no longer possible.
Incapacity to pay or insolvency	Proof of Insolvency (i.e. Court decision pursuant to FRIA)
Exhaustion of all possible remedies by Management to demand and collect the receivable	Proof of exhaustion of all remedies to collect the receivables, such as but not limited to copies served or returned demand letters.
No pending case in court involving the subject account	Certification by the Legal Services Group of no pending case relative to the account

2.10 The enumerated documents, as applicable, were not submitted to the Audit Team as proof to the conditions to warrant the request for write off for each account despite the recommendation of the Head of CSS to submit the documentary requirements to the regulatory agencies such as COA and BSP. Likewise, the certification of non-recovery of receivable issued by the three (3) collection agencies showed that some of the field works are still unfinished or not yet totally complied with as stated in the

Field Remarks' column of the certification, such as: waiting for results, rescheduled, and letter mailing waiting for the result.

2.11 As of report date, the only documents submitted and available for audit that pertains to the written-off receivable accounts totaling P65.244 million, are as follows:

I. BR No. 2020-12-3021 dated January 5, 2021 and its underlying supporting documents, to wit:

a. Memorandum dated December 9, 2020 from ManCom to FROC justifying the request for write-off of the 109 accounts with an aggregate amount of P86.499 million;
b. Summary of accounts for write off; and
c. Certifications of non-recovery of accounts receivable as executed by the three collection agencies.

II. Loan folders

2.12 The non-submission of complete documentary requirements to support the written-off receivable accounts in the books totaling P65.244 million casts doubt on the correctness of the accounts written-off.

2.13 We recommended that Management, through the Office of the Chief Compliance Officer, submit for audit the necessary documentary requirements to support the written-off receivable accounts.

2.14 Management commented that SB Corporation, through CARSG, strictly complied with the provision of the Corporation's Write-Off policy manual. Out of the P86.499 million Board-approved amount for write-off, CARSG only transmitted a lower amount of P65.244 million as accounts for write-off due to some duplication issue.

2.15 Further, the P65.244 million accounts written-off have been endorsed to other Collection Agencies as part of Management's action to fully collect the delinquent loans.

2.16 By an audit rejoinder, the COA Audit Team maintains its position that the documents submitted for the written-off past-due accounts totaling P65.244 million are insufficient preventing us to make a conclusion on the written-off accounts. Subsequent verification on the available accounting documents led to the discovery that the following related documents are not attached: a) credit policies for the grant of loan, foreclosure and application of collaterals and restructuring, among others; b) reports supporting the classification of accounts to be written-off, such as: report on past-due, aging of accounts, collection efforts, skip tracing of borrowers; c) Investigation and Inspection Reports; d) Credit Committee reports and instructions; e) applicable documents enumerated under paragraph 2.9, hereof; and e) other documents deemed necessary to fully evaluate the written-off of accounts.

c. Non-submission to the BSP of the required notice of write-off in the prescribed form on 110 receivable accounts totaling P98.881 million is contrary to the applicable provisions of BSP Circular No. 855,

BSP's Manual of Regulations for Non-Bank Financial Institution (MORNBFI), and SB Corporation's Write-off policies.

2.17 Section 4178Q.19. Writing off problem credits of the BSP's MORNBFI and BSP Circular 855, provides that:

> *Policies shall define and establish the reasonable period of time within which to write off loans already classified as "Loss". There shall be no undue delay in implementing write-offs. Notice of write-off of problem credits shall be submitted in the prescribed form to the Bangko Sentral through the appropriate department of Supervision and Examination Sector (SES) within thirty (30) business days after every write-off with a sworn statement signed by the President of the FI or officer of equivalent rank that write-off did not include transactions with DOSRI and was undertaken in accordance with board approved internal credit policy.*

2.18 Also, under SB Corporation's Write-off policies approved under BR No. 2018-11-2648 dated December 3, 2018 disclosed the same requirement as stated above, hereby quoted:

> *Approving Authority*
>
> *Write-off of loans and other credit accommodations shall be approved by the Board of Directors and notice thereof submitted to BSP within 30 days from approval of the former.*

2.19 The SB Corporation requested from its governing board the write-off of the 110 loan accounts in the aggregate amount of P98.881 million, as follows:

Written-off Accounts	No. of Receivable accounts	Amount	No. of written-off accounts	Recorded
J	1	12,381,194.05	1	12,355,481.29
Various accounts	109	86,499,484.18	99	65,243,565.72
Total	**110**	**98,880,678.23**	**100**	**77,599,047.01**

2.20 Records showed that there are two Board approved request for write-off of accounts for CY 2020. The first request is for the write-off of Account J in the amount of P12.381 million which was endorsed by the CARSG on September 24, 2019 to the Risk Management Committee for approval and endorsement to the Governing Board. The same was approved under BR No. 2019-12-2869 dated December 5, 2019 and the write-off of account was recorded in the books under JV No. 20-02-146 on February 11, 2020.

2.21 Meanwhile, the second request for write-off was made on December 9, 2020, where the ManCom through MR No. 2020-1124-010 endorsed the request of CSS to FROC the request for write-off of 109 accounts with an aggregate amount of P86.499 million for approval and endorsement of the same to the BOD. On January 5, 2021, per BR No. 2020-12-3021, the BOD approved the request, however, only the amount of P65.244 million equivalent to 99 accounts was initially recorded in the books under JV-20-12-380-B dated December 31, 2020.

2.22 Inquiry from concerned personnel disclosed that the notice of write-off with the required sworn statement has not yet been submitted to BSP after the approval of the write-off of the 109 accounts. This is despite the recommendation of the Head of CSS in its Memorandum to the ManCom, then to FROC dated December 9, 2020, which also forms part as Annex A of BR No. 2020-12-3021. The recommendation states that:

> *After various means of recovery strategies have been implemented which include among others, restructuring, foreclosure, legal action, and outsourcing of third-party collection agencies, Management recommends the writing of accounts in an aggregate amount of Php86,499,484.18 covering 109 accounts, subject to submission of various documentary requirements by regulatory agencies, COA and BSP.*

2.23 The submission of said notice of write-off of problem credits in prescribed form is to determine whether the accounts to be written-off do not include DOSRI account, in which case, write-off of problem credits should be subject to the approval of the Monetary Board under Section 4178Q.19 of BSP MORNBFI.

2.24 Thus, non-submission of the required notice of write-off of receivable accounts in prescribed form on the 110 accounts totaling to P98.881 million is not compliant with BSP Circular No. 855, BSP's MORNBFI and SB Corporation's write-off policies.

2.25 We recommended that Management, through CARSG, strictly comply with the provisions and requirements of BSP Circular No. 855, MORNBFI, and SB Corporation's Board approved internal write-off policy and memoranda by preparing and submitting to BSP the required notice of write-off of receivable accounts in prescribed form.

2.26 Management commented that the SB Corporation will submit immediately to BSP, the required Sworn Statement signed by the President and CEO that write-off did not include Directors, Officers, Stockholders and Related Interest (DOSRI) accounts.

B. OTHERS

3. The SB Corporation has incurred delays in the submission of various required reports, schedules and supporting documents for CY 2020 annual reporting, contrary to the pertinent provisions of Sections 41 and 122 of Presidential Decree (PD) No. 1445 and Sections 7 and 3 of COA Circular Nos. 2009-006 and 2015-004, respectively, precluding the timely audit of accounts and transactions thus, transparency and accountability of information and data is not fully attained.

3.1 Section 41 of the PD No. 1445, as amended by Executive Order (EO) No. 292, otherwise known as the Administrative Code of 1987, mandates that:

(1) ***The Commission shall submit to the President and the Congress not later than the last day of September of each year an annual report on the financial condition and results of operation of all agencies of the Government*** *which shall include recommendations of measures necessary to improve the efficiency and effectiveness of these agencies;*

(2) To carry out the purposes of this section, ***the chief accountant or the official in charge of keeping the accounts of government agency shall submit to the Commission year-end trial balances and such other supporting or subsidiary statements as may be required by the Commission not later than the fourteenth day of February****. Trial balances returned by the Commission for revision due to non-compliance with accounting rules and regulations, shall be resubmitted within three days after the date of receipt by the official concerned;*

(3) ***Failure on the part of any official or employee to comply with the provisions of the immediately preceding paragraph shall cause the automatic suspension of the payment of his salary and other emoluments until he shall have complied therewith****. The violation of these provisions for at least three times shall subject the offender to administrative disciplinary action. (Emphasis Ours)*

3.2 Also, Section 122 of the same PD provides that whenever deemed necessary in the exigencies of the service, the Commission may under regulations issued by it require the agency heads, chief accountants, budget officers, cashiers, disbursing officers, administrative or personnel officers, and other responsible officials of the various agencies to submit trial balances, physical inventory reports, current plantilla of personnel, and such other reports as may be necessary for the exercise of its functions.

3.3 Relative to the above provisions, Sections 7.1.1 and 7.2.1 of COA Circular No. 2009-006 dated September 15, 2009, prescribes that:

7.1.1 The head of the agency, who is primarily responsible for all government funds and property pertaining to his agency, shall ensure that: (a) the required financial and other reports and statements are submitted by the concerned agency officials in such form and within the period prescribed by the Commission;

7.2.1 The Chief Accountant, bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency, shall ensure that:

(a) The reports and supporting documents submitted by the accountable officers are immediately recorded in the books of accounts and submitted to the Auditor within the first ten (10) days of the ensuing month;

(b) The financial records are made accessible at reasonable hours to the Auditor or his authorized representatives when

needed; xxx

3.4 Further, Section 3.1 of COA Circular No. 2015-004 dated July 16, 2015, as partially modified by COA Circular No. 2017-004 dated December 13, 2017, states that:

> ***The Chief Accountant/Head of Accounting Unit shall submit directly*** *to the Government Accountancy Office (GAO), GAS, and* ***to the Supervising Auditor (SA)/Audit Team Leader (ATL) concerned, the following year-end financial statements and other related financial reports/schedules*** *in accordance with the existing format and in printed and digital copies* ***on or before February 14 of each year:*** *xxx (Emphasis ours)*

3.5 In accordance with the aforementioned provisions, the Audit Team requested, through a Memorandum dated January 8, 2021 to the SB Corporation, the immediate submission of the complete set of financial statements for CY 2020, as well as the financial reports, supporting documents, and other relevant data necessary for the timely conduct of CY 2020 audit of SB Corporation and transmittal of the audit reports thereon.

3.6 Despite the said request and several follow-ups made verbally and through messages in social media platforms, submission to the Audit Team of a significant number of the required reports, documents and other data have been delayed and some are even remained unsubmitted as of report date, contrary to the above-mentioned provisions of PD No. 1445 and COA issuances. The reports and documents that have not yet been submitted and/or submitted with delays are summarized below:

	No. of Days Delayed
Already submitted but with delays	
Trial Balance Reports and JEVs for closing journal entries	110 - 113 days
Financial Statements and other related statements	110 - 113 days
Various schedule of accounts	0 - 142 days
Other financial reports	0 - 40 days
Other required reports	0 - 30 days
JVs - Regular and P3	0 - 85 days
DVs-P3	0 -85 days
LDAs- P3	0 -82 days
ORs-Regular and P3	0 -85 days
Remaining unsubmitted	
Some DVs - Regular and P3	0 - 156 days
Some LDAs - P3	0 - 156 days
Some ORs - Regular and P3	0 - 156 days

3.7 As a result, the Audit Team was precluded from the timely audit of the accounts, thus, transparency and accountability of information and data is not fully attained.

3.8 **We recommended that Management through CG:**

a. **Prioritize and expedite the submission of the required financial reports and schedules, DVs and JVs and its underlying documents in compliance with the pertinent provisions of PD No. 1445 and COA issuances;**

b. **Subsequently, ensure that the deadlines set in the submission of financial statements and other reports prescribed in COA Circular No. 2015-004 are strictly observed; and**

c. **Where warranted by the circumstances, cause the suspension of the payment of salary and other emoluments of the officials and employees responsible for the non-submission of the required reports or data on time.**

3.9 Management commented that the delay and/or non-submission of the required financial statements for CY 2020 and its corresponding schedules and reports is due to the difficulties experienced under the uncertain condition brought about by the pandemic. Particularly, it took SB Corporation a considerable amount of time to come up with the provisioning report given the setback in monitoring the Micro, Small and Medium Enterprise borrowers and the implementation of the moratorium pursuant to Republic Act No. 11494, dated September 11, 2020, otherwise known as "*Bayanihan To Recover as One Act*" which directly affected the reporting of loan balances of the subject MSME borrowers.

3.10 Amidst the crisis caused by the pandemic, SB Corporation has responded to the government's demand to help the MSMEs that are greatly affected by the COVID-19 pandemic through the utilization of the P1.5 billion National Government subsidy to the Pondo sa Pagbabago at Pag-asenso (P3) and the additional P8.080 billion equity fund. SB Corporation has been committed to the implementation of the special programs for the COVID-19 affected businesses.

3.11 As an audit rejoinder, the Audit Team commiserates on the difficulties encountered by the SB Corporation brought about by the COVID-19 pandemic, however, the COA has a statutory responsibility, thus, submission of the Annual Audit Report and Annual Financial Report need not be delayed.

4. Four (4) foreclosed properties valued at P3.894 million under the account of one borrower are still recorded in the books despite having a court's finality of decision dated October 24, 2016 which indicates loss on the part of the SB Corporation.

4.1 Verification of the account of a borrower disclosed that despite the court's decision in favor of the registered owners of the four properties valued at P3.894 million, the same are still included in the schedule of ROPAs.

4.2 Under Civil Case No. 4297-2009-C, Declaration of Nullity of Special Power of Attorney, Real Estate Mortgage (REM) dated October 24, 2016 of the Regional Trial Court Fourth Judicial Region Branch No. 35 of Calamba City, the court decided in favor of the registered owners of the property given the fact that the SPA used by the defendant to support her authority to execute REM on behalf of the registered owners was a mere forgery and therefore, void ab initio. The REM she executed was likewise defective and is, under the law, unenforceable against the owner or their successors-in-interest. The defendants including SB Corporation did not appeal the decision on the subject case and it became final and executory[1]. Thus, there is a need to exclude the said property in the list of ROPA.

4.3 The said court decision was received by SB Corporation on April 7, 2017, and further verification revealed that the CARSG has not informed/requested the CG on the delisting of the said properties in the books of SB Corporation, thus, CG having no idea of the finality of the decision still included the said properties in the books as at December 31, 2020.

4.4 Relative to the unfortunate event of foreclosing the account of the said borrower, the lapses committed in the acceptance of the REM which resulted in the filing of a court case that became final and executory indicates loss on the part of SB Corporation.

4.5 **We recommended that Management:**

a. Require the CARSG to periodically coordinate and submit to CG the schedule of all ROPAs with complete information relevant to the status of foreclosed properties, and if necessary, for CG to effect adjustment in the books of accounts to come up with the correct account balances for the fair presentation of the financial statements;

b. Consult the Legal Services Group (LSG) on how to recover the loss amount brought about by the unfortunate event of foreclosing the borrower's account, and identify the liable personnel who examined and accepted the assigned mortgaged documents presented by the assigning bank in behalf of SB Corporation; and

c. Exercise due diligence in engaging into transactions involving real properties to avoid wastage of government funds.

4.6 Management commented that alternative legal remedies, if any, shall be submitted by the LSG within the month of May 2021.The LSG has likewise, requested the concerned Regional Lending Group to conduct an updated skip tracing of the borrower of SB Corporation, as well as conduct the updated property search in preparation for the filing of the appropriate legal action to recover the loss amount.

5. The pre-qualification done by the Partner Institutions and issuance of Certificate of Compliance without the accompanying documentary requirements on loans released totaling P13.700 million is contrary to Section 4 of PD No. 1445. Further, the Memorandum of Agreement (MOA) lacks provision on the liability of the Partner Institutions in the event that

[1] Certificate of Finality dated February 22, 2018.

the borrower fails to pay his obligation caused by inadequate conduct of due diligence. Furthermore, the pre-qualification for the loans conducted by the Partner Institutions is not tantamount to the due diligence by SB Corporation itself.

5.1 Section 4 of PD No. 1445, provides that:

> *Section 4**.** Fundamental principles. Financial transactions and operations of any government agency shall be governed by the fundamental principles set forth hereunder, to wit:*
>
> *xxx*
>
> *6. Claims against government funds shall be supported with complete documentation.*

5.2 In Board Resolution No. 2020-06-2965[2] dated June 11, 2020, a Memorandum dated June 05, 2020 was approved. Item No. 3.2 of said Memorandum, states that:

> *3.2 Limitation on Partner Responsibilities:*
>
> *Partner responsibilities are limited to marketing, information/data sharing and* ***prequalification of borrowers****. For the marketing activities of partners, agreements shall include emphasis on the need for marketing to be solely based on "SB Corporation official issuances." Such provision shall ensure correct content and proper and coordinated timing of release of information to the targeted members of the partner institutions.* (Emphasis ours)
>
> *If granted to the partner, the* ***prequalification of borrowers*** *shall be conducted under a controlled arrangement; ensuring sufficient compliance to prequalification procedure dictated by SB Corp. Partner Organization shall be guided by the need to ascertain complete submission of SB Corporation-mandated schedule of documentary requirements.* (Emphasis ours)
>
> *The endorsement of the partner organization, thru issuance of a Certificate of Compliance as a documented vetting process, is also a pre-requisite. Receipt of said Certification shall trigger the beginning of the loan evaluation process using the online application portal.*

5.3 Furthermore, Section 2.1. (ii) of the MOA entered into between Partner Institution A provides that:

> *xxx*
>
> *2.1 During the Program period, PCCI and its Member Association shall:*
>
> *xxx*

[2] Request for Omnibus Authority to Enter into Partnership Agreements Relative to the CARES Program.

(ii) ***review the completeness of the loan application and supporting documents submitted by their member MSEs*** *based on the Partner's checklist herein attached as Schedule 1 of the Agreement.* (Emphasis ours)

5.4 The same provision is also stated in the MOA between SB Corporation and Partner Institution B.

5.5 According to SB Corporation, Partner Institutions A and B have dedicated Borrower Registration System (BRS) link where their technical staff encode the borrower and business information of their members, attach the documentary requirements and submit the application online. After which, Certification and Endorsement Form is submitted to SB Corporation, which contains the Partner's certification of compliance with the loan application documentary requirements and endorsement of the loan amount, for SB Corporation's approval and further processing.

5.6 Subsequent verification revealed that there are 42 borrowers with loans totaling P13.700 million from Partner Institutions with no documentary requirements supporting the application online. Only the Certificate of Compliance was uploaded online.

5.7 The P13.700 million loans granted to the 42 borrowers was sourced from the P1.5 billion released by the NG to SB Corporation's P3 Program CARES 1 and 2 implemented pursuant to RA No. 11469, otherwise known as the "Bayanihan to Heal as One Act". Further, Partner Institutions A and B are included in the 11 programs carried out under P3 CARES 1 and 2.

5.8 The pre-qualification for the loans granted was done solely by the Partner Institutions. SB Corporation entrusted the said process to the Partner Institutions, hence, the former has no firsthand knowledge of the documentary requirements submitted by the borrowers, the procedures implemented by the Partner Institutions to validate the accuracy of the information, nor confirmed the validity of the documents provided by the borrower. Also, the SB Corporation has no direct source of information to determine the borrower's risk profile due to lack of documentary requirements.

5.9 It cannot be denied that the Certificate of Compliance is a possible subject of abuse considering the fact that the borrowers are members of these Partner Institutions. It is self-serving as well.

5.10 Further, the MOA has no provision on the liability of the Partner Institutions in the event that the borrower fails to pay his obligation for reason that they are ineligible to avail of the loan.

5.11 Relatively, the probability of the occurrence of default on the account of the borrower under the due diligence of the Partner Institutions may result in loss of government funds because SB Corporation cannot go after the Partner Institutions as a result of the MOA.

5.12 **We recommended that Management:**

a. **Directly conduct the pre-qualification of borrowers and exercise due diligence, and not the Partner Institutions, to safeguard the disbursement of the P3 CARES 1 and 2 subsidy and to ensure that loans are being given to the right and deserving MSMEs;**

b. **Prospectively, observe consistency in the terms of reference and among Partner Institutions and include a provision in the MOA on the liability of the Partner Institutions in case they issue the Certificate of Compliance even if the loan applicants failed to submit the complete set of required documents; and**

c. **Strictly comply with Section 4(6) of PD No. 1445 by requiring the Partner Institutions to submit the documentary requirements of the borrowers with approved loans to support the disbursements made.**

5.13 Management assured and reiterated that SB Corporation has exercised due diligence and has been operating under a sound credit granting process consistent with prudent standards and practices in accordance with relevant regulatory requirements to mitigate the risks associated with engaging in enterprise rehabilitation financing, particularly during the on-going pandemic. While Management acknowledged the value of the external credit assessments performed by Partner Institutions under said MOA which include initial Know Your Client procedures and pre-qualification activities, the sole authority to grant (or deny) loans remains with SB Corporation.

5.14 This notwithstanding, Management recognized the COA's invaluable recommendations on the matter. Also, discussed hereunder are the SB Corporation's response/comments more specifically:

a. SB Corporation has been exercising due diligence in the evaluation and approval of loan applications in all its financing facilities, including the CARES Program. To provide further clarification, the primary objective of engaging and partnering with long-established and government-accredited organization such as Partner Institutions A and B is to maximize public-private collaboration with institutions similarly focused in assisting MSMEs in the country.

b. Further, Management would like to believe that the partnership with the said Partner Institutions has allowed SB Corporation to more effectively and efficiently disburse the funds under the P3 Program (through CARES 1) and under Bayanihan 2 (through Bayanihan CARES 2) to legitimate MSMEs. This proved crucial and particularly beneficial in the middle part of 2020 as SB Corporation at the time was still developing and fine-tuning its online loan application system (OLAS) under the CARES Program.

c. Nevertheless, as the OLAS matures and becomes more intuitive and user-friendly, Management observed a gradual decline in the endorsements from Partner Institutions. This prompted them, among other things, to revisit and discuss with Partner Institutions

A and B some aspects of the MOAs, particularly the pre-qualification covenants. Said discussions in February and March 2021 with Partner Institutions A and B, respectively, have resulted in verbal agreements with said Partner Institutions to limit the Corporation's partnerships to marketing of the CARES Program and other financing facilities of SB Corporation to their member-MSMEs. Consequently, the arrangement for said Partner Institutions to issue a Certificate of Compliance has been discontinued. Management hopes to formally document this new arrangement with the concerned Partner Institutions as soon as possible.

d. Management believes that including the liability of the Partner Institutions as recommended is both legally and technically not feasible. Management reiterates that SB Corporation has the sole authority to approve or disapprove any loan application. As such, SB Corporation bears the credit risk in case of loan default.

e. Moreover, Management believes that the proposed action has likewise become moot and academic given that both Partner Institutions' responsibilities based on the soon to be formalized verbal agreement is now limited to marketing.

f. Section 3.1 IV of the MOA states that it is the Partner Institutions responsibility to secure all the documentary requirements as identified in Schedule 1 of said agreement. These complete set of documentary requirements duly submitted by the loan applicants to Partner Institutions are in fact the bases for the issuance of the Certificates of Compliance by the Partner Institutions to avail of the loans under the P3-CARES 1 and 2 Programs of SB Corporation.

g. Management shall provide the COA Audit Team with the complete report on the subject accounts whose loans have been released by SB Corporation.

5.15 As a rejoinder, the Audit Team maintains its recommendations until the new MOA is signed by the parties concerned. The SB Management in the exercise of due diligence should conduct the prequalification of borrowers to ensure that the loans are actually granted to qualified and deserving borrowers.

5.16 The hard copies of all documentary requirements have to be submitted to the Audit Team pursuant to Sections 7.1.1 and 7.2.1 of COA Circular No. 2009-006 dated September 15, 2009, and Section 43.4 of PD No. 1445 on the Powers, functions, and duties of auditors as representatives of the Commission which provides *that the auditors in all auditing units shall have the custody, and be responsible for the safekeeping and preservation of paid expense vouchers, journal vouchers, stubs of treasury warrants or checks, reports of collections and disbursements and similar documents together with their respective supporting papers, under regulations of the Commission.*

5.17 Out of the total 61 loan accounts amounting to P18.700 million, only 19 loan accounts totaling P5.000 million have been submitted for evaluation by the Audit Team. The remaining 42 loan accounts totaling P13.700 million are still for submission.

6. The acquired property of SB Corporation-NLG with a lot area of 260 sq.m. is being occupied or utilized by a private individual without the benefit of a lease contract due to the failure of the SB Corporation-NLG to strictly implement the acquired assets management activities required under SB Corporation Memorandum dated June 23, 2009, depriving the SB Corporation of the opportunity to earn rental income.

6.1 Section 2 of PD No. 1445 states that:

> *It is the declared policy of the State that resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.*

6.2 Likewise, Book II of the Civil Code of the Philippines on Property, Ownership and its Modifications states:

> *Art. 441. To the owner belongs: a) the natural fruits; b) the industrial fruits; and c) the civil fruits.*
>
> *Art. 442. Natural fruits are the spontaneous products of the soil, and the young and other products of animals. Industrial fruits are those produced by lands of any kind through cultivation or labor. Civil fruits are the rents of builds, the price of leases of lands and other property and the amount of perpetual or life annuities or other similar income.*

6.3 SBC Memorandum dated June 23, 2009 on Area Office Functional Matters provides for the Collateral and Acquired Assets Management Functions of Area Offices. It is stated therein that the Head Office Acquired Assets Management Unit (AAMU) shall handle all technical tasks with regard to management of acquired assets while the administrative tasks or legwork shall be delegated to the Area Offices. As such, the Area Officer with the assistance of the AAMU shall be responsible for the administration and maintenance of acquired assets, which cover the following activities:

a. Hiring of caretaker, undertaking cleanliness, repair and fencing activities, if needed; and
b. Leasing out of the property.

6.4 As at December 31, 2020, there are 44 ROPAs under the jurisdiction of the SB Corporation-NLG with a total net book value of P12.347 million. However, due to travel restrictions imposed because of COVID-19 pandemic, the Audit Team was only able to validate one ROPA located in Baguio City. The property inspected has the following details:

TCT No.	Area	Location	Cost	Bid Price as at September 10, 2020
TD No. 2010-03001-103962	260 sq. m.	Km. 4 Asin Road, within Brgy. San Roque, Baguio City	P468,000.00	P1,287,000.00

6.5 Ocular inspection conducted on February 23, 2021 disclosed the following:

a. a structure, occupied/utilized by a private individual, exists on the property;
b. the property has no perimeter fence; and
c. no signage indicating ownership of property and that it is for sale.

6.6 According to Management, signage indicating that the property is for sale has been installed but it was either damaged or stolen by unknown persons. It has also come to their knowledge that another party is claiming ownership of the subject property. This matter is still for investigation.

6.7 The absence of perimeter fences and signage and the presence of illegal occupants indicate that the acquired asset of SB Corporation is not properly managed and inadequately safeguarded and preserved. Also the non- execution of lease contract by the SB Corporation–NLG and the Head Office–AAMU with the occupants deprived the SB Corporation of the rent income.

6.8 **We recommended that Management through concerned Groups:**

a. Execute lease contracts, if applicable, or demand that the illegal occupants vacate the property if they refuse to enter into a lease contract or unreasonably ignore demands for payment of rentals; and

b. Coordinate with Head Office-AAMU to adequately secure and preserve the property against unauthorized occupants by constructing a perimeter fence and posting signage/markers indicating that the property is owned by SB Corporation and is available for sale/lease.

6.9 Management agreed to the recommendations and will elevate the same to the LSG-Head Office of SB Corporation for proper legal action. Management will also investigate the issue on ownership of the property by another party and the stolen signage by unknown person.

7. The 136 Disbursement Vouchers (DVs) in the total amount P9.669 million as well as its supporting documents were not stamped "PAID" upon payment, in violation of COA Circular No. 92-389 dated November 03, 1992, which opens the possibility of re-using the supporting documents for another claim.

7.1 COA Circular No. 92-389 dated November 3, 1992, states that:

Q. Paid vouchers, including its supporting documents, shall be perforated and conspicuously stamped Paid by the Cashier. The *stamp shall provide space for the number of the check issued and date of actual payment, and its size should be 2" X 3.*

7.2 The procedure is an integral part of a sound internal control to avoid recycling of documents and/or prevent double processing of claims.

7.3 During the post-audit of DVs covering the period January 1 to November 30, 2020, it was observed that out of the 185 DVs post-audited, 136 DVs totaling P9.669 million as well as its supporting documents were not stamped "PAID", to wit:

Observation	No. of DVs	Amount
Not Stamped "PAID"	136	9,669,316
Stamped "PAID"	49	2,827,267
Total	**185**	**12,496,583**

7.4 Meanwhile, the 49 DVs and its supporting documents that were stamped "PAID" were devoid of information as to the check number issued and the date of actual payment.

7.5 The Accountant admitted that stamping of some DVs was overlooked. Also, it was noticed that the stamp format used by the agency does not meet the size and does not provide a space for the minimum information required by the Circular, i.e. number of the check issued and date of actual payment.

7.6 The perforation or stamping of paid disbursement vouchers including all its supporting documents is an internal control measure to prevent the reuse of same documents in the future for claims of similar nature. Hence, failure to perform this control opens the possibility of re-using the supporting documents for another claim.

7.7 **We recommended that Management require the concerned personnel to stamp "PAID" all the DVs and all its supporting documents and make sure to supply/fill in the necessary information for a sound internal control system, thus disbursement of public funds is safeguarded.**

7.8 Due to the current working schedule of SB Corporation-Davao in compliance to COVID-19 safety protocols and the urgency of the Audit Team's request on the submission of original disbursement vouchers, the Management had inadvertently overlooked the stamping as "PAID" the subject documents. They further explained that it was their first time to commit such violation.

7.9 Management also commented that the recommendations are well taken and that a new stamp that is compliant to COA Circular No. 92-839 is already available. SB Corporation - Mindanao Group Management also requested the return of the subject DVs for stamping purposes.

8. The SB Corporation, through its Gender and Development (GAD) programs, activities and projects (PAPs), has favorably implemented the major activities that were gender responsive and were focused to assist the marginalized sector of un-served and underserved micro women entrepreneurs through access to SB Corporation's Microfinance Financing and P3 program funds totaling P3.764 billion against the GAD budget totaling P3.760 billion, thus, exceeded by P4.071 million.

8.1 Verification disclosed that SB Corporation has allocated some P3.760 billion or 70.43 per cent of its Corporate Operating Budget (COB) of P5.339 billion to implement its GAD PAPs pursuant to Item 6.1 of Joint Circular (JC) No. 2012-02 issued by the Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and the Department of Budget and Management (DBM).

8.2 The P3, Medium Small Micro Enterprise (MSME) Wholesale Lending Program and the MSME Retail got the biggest chunk of the GAD budget with total expenditures amounting to P3.627 billion, P11.316 million and P125.693 million, respectively. In line with SB Corporation's mandate to assist the MSMEs, the SB Corporation had provided financing facility for micro-enterprises belonging to the informal business sector using the people's organizations and even partnered with micro finance institutions.

8.3 The actual utilization for the implemented GAD related activities amounted to P3.764 billion, exceeding the DBM-approved GAD budget by P4.071 million, that could be attributed to the nature of the P3 funds which is a continuing appropriation, and self-liquidating in nature.

8.4 However, inquiry from the GAD Focal Person on the excess of P4.071 million revealed that there was no Supplemental Budget filed to PCW to support the excess expenditures.

8.5 Also, the Client and Organizational related GAD PAPs with PCW approved GAD Budget totaling P2.632 million has no reported actual cost/expenditure. Among the reasons cited by Management are as follows:

- the data integration of P3 and Bayanihan CARES programs being implemented by the Management Information System Department (MISD), thus, dashboard providing sex disaggregated data is not available in CY 2020;
- due to pandemic and lockdowns implemented by the NG, all learning and development plans were put on hold for safety reason; and
- the focus of the workforce was redirected to respond to the needs of the MSME sector gravely affected by the pandemic through the CARES programs.

8.6 The increase in the budget allocation for the implementation of GAD activities is beneficial to the client-focused activity that empower the women entrepreneurs to become contributors to socio-economic endeavor of the country, in general, in conformity with the SB Corporation's mandate.

8.7 Presented in the following matrix are the GAD accomplishments for CY 2020:

Gender Issue/GAD Mandate	GAD Activity	Output Targets	Actual Result	DBM Approved GAD Budget	Actual Cost/ Expenditure
Client Related					
Sex Dis-aggregation of borrowers under the P3 program	Conduct gender analysis on 1 P3 funded program	Gender analysis report	The data integration of the P3 and Bayanihan CARES program is being implemented by the MISD, thus, dashboard providing sex disaggregated data is not available in 2020. The data integration is in response to the digital transformation project of SB Corporation in its P3 and Bayanihan CARES program	35,498	0
	Ensure that the P3 Dashboard provide sex disaggre-gation data	Availability of SDD report showing percentage distribution of borrowers by gender		440,000	0
Empower more women by providing them capacity building programs	Marketing activity focusing on women entrepreneur s	Percentage distribution of training beneficiarie s by gender Target: 35% of capacity building program clients are women	No capacity building activity for PFIs in 2020, pursuant to a ManCom Resolution providing for the suspension of several Capacity Building Group/Venture Capital and Financing Institution Development Group activities. SB Corporation focus was shifted to the groundwork for the Rapid/Venture Capital until the pandemic happen.	2,071,650	0
Organizational Related					
Need to re-assess the application of Harmonized Gender and Development Guidelines (HGDG) to SB Corporation programs	Review and re-assess the application of HGDG vis-a-vis the guidelines prescribed under PCW-NEDA-DBM Joint Circular No. 2012-01	HGDG score	The orientation/ briefing on HGDG assessment and GAD awareness are under the SB Corporation's Learning and Development Plan. Due to pandemic and lockdowns implemented by the NG, all learning and development plans were put on hold for safety reason and in compliance with the social distancing protocols. Moreover, the	35,498	0

Gender Issue/GAD Mandate	GAD Activity	Output Targets	Actual Result	DBM Approved GAD Budget	Actual Cost/ Expenditure
			focus of the workforce was redirected to respond to the needs of the MSME sector gravely affected by the pandemic through the Bayanihan CARES programs		
Limited GAD awareness activities	Conduct GAD awareness orientation/ briefing in all offices (HO, NLG, SLG, VG and MG) of SB Corporation	Attendance to GAD Awareness orientation/ briefing		50,000	0
Sub-total				**2,632,646**	**0**
Harmonized Gender and Development Guidelines (HGDG) Attributed					
A. MSME Wholesale Lending Program			Total Loan Releases	1,050,000,000	11,316,060
B. MSME Retail Lending Program			Total of 47.44% women borrowers	300,000,000	125,693,275
C. P3			Total of 72% women borrowers nationwide	2,407,500,000	3,627,193,903
Sub-total				**3,757,500,000**	3,764,203,238
Total				**3,760,132,646**	**3,764,203,238**

8.8 The SB Corporation has favorably accomplished its GAD targets for CY 2020. The attribution of the SB Corporation's primary mandate to the GAD budget of P3.760 billion made the gender responsiveness of the government effective during the time of the pandemic. However, spending beyond the approved budget is contrary to the general policy that utilization of funds must be within the approved budget. Any excess requires supplemental budget duly approved by the governing board and should have been endorsed to the PCW for its consideration and approval.

8.9 **We recommended that Management, through the GAD Focal Point Systems, consider the following:**

a. Strictly continue promoting support to the agenda of the NG towards gender perspective and gender-responsive PAPs for the benefit of the intended beneficiaries within the approved GAD Plans and Budget; and

b. Ensure that the implementation of the planned GAD PAPs are properly monitored, done as per schedule within the budget year, as approved by PCW.

8.10 Management commented that SB Corporation shall take actions to further strengthen the implementation of SB Corporation's GAD activities and programs.

8.11 Also, they added that the GAD Focal Point System will continuously be promoting support to the agenda of the NG towards gender perspective and gender-responsive PAPs for the benefit of the intended beneficiaries and to strengthen the monitoring and analysis of the GAD plans and programs.

8.12 Moreover, Management would like to assure the Commission that the actual loan disbursements totaling P3.627 billion of the SB Corporation are within the approved COB. Any excess are sourced from the reflows.

8.13 By an audit rejoinder, we believe that the SB Corporation can find ways on how the other GAD projects and programs can be implemented through GAD Focal Point for the benefit of both the employees and clientele and not just concentrate on attribution. Also, the GAD Focal Point must ensure the proper monitoring and review of pertinent report to implement GAD PAPs within the GPB of the current year.

9. Status of Audit Suspensions, Disallowances and Charges

Particulars	Beginning Balance, (January 1, 2020)	This period January 1 to December 31, 2020		Ending Balance December 31, 2020
		NS/ND/NC	NSSDC	
Notice of Suspension	0	0	0	0
Notice of Disallowance	169,247,479	107,858,288	97,418	277,008,349
Notice of Charge	0	0	0	0
Total	**169,247,479**	**107,858,288**	**97,418**	**277,008,349**

9.1 As at December 31, 2020, the balance of suspensions, disallowances and charges upon the implementation of 2009 Rules and Regulations on Settlement of Accounts (RRSA) amounted to P277.008 million. It consists of the disallowances issued for the overpayment of CNA incentives, unauthorized merit increases, economic and financial assistance, group life insurance, gift cheques, various allowances, and salary increases for the period April 2010 to December 2018.

9.2 Notices of Disallowance (ND) No. 20-001-50101010 (17-18) totaling P107.858 million regarding payment of unauthorized rates of salaries was issued on June 30, 2020.

9.3 Meanwhile, Notices of Settlement of Suspensions, Disallowances, and Charges (NSSDCs) totaling P0.097 million was also issued during the year, representing partial settlement on ND No. 14-001-401000-(13) regarding ND on merit increase of SB Corporation officers.

9.4 The appeal of SB Corporation to the Office of the Cluster Director (OCD) pertaining to the disallowed payment of Group Life Insurance and Birthday Allowance in the amount of P1.291 million per ND No. 19-001-

893000-(17-18) ND No. 19-002-884000-(17-18), was denied by the OCD per CGS Cluster Decision No. 2020-019 dated October 6, 2020.

9.5 Also, appeal of SB Corporation to the Office of the Cluster Director relative to the unauthorized rates of salary increase, creation of new position and hiring of new employees of SB Corporation for Calendar Years 2017 and 2018 per ND No. 20-001-50101010 (17-18) dated June 30, 2020 amounting to P107.858 million was denied by the OCD per CGS Cluster Decision No. 2020-028 dated December 17, 2020.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 13 audit recommendations embodied in the CY 2019 Annual Audit Report, nine were fully implemented and four were partially implemented. Details are presented below:

Reference	Audit Observations	Audit Recommendations	Status/ Actions Taken
CY 2019 AAR			
Observation No. 1, page 56	1. SB Corporation had an under remittance of dividends to the National Government (NG) for Calendar Years (CYs) 2014 and 2015 in the amount of P8.322 million and P8.039 million, respectively, since computation of the same were not strictly in accordance with the prescribed method of computation provided under Annex C of the 1998 Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) 7656, thus, depriving the NG of the much needed revenue to finance its various projects. Furthermore, the non-taking up of the correct amount of dividends Due to the NG in the books of the Corporation resulted in the misstatement of the balances of Dividends Payable and Retained Earnings at year end, contrary to the requirements of the Philippine Accounting Standards (PAS) 1.	a. Comply strictly with the prescribed method of computation of dividends provided under Annex C of the 1998 Revised IRR of RA 7656 and Section 5.a (i) of the 2016 Revised IRR of the same Act, where applicable, with consideration of Section 16 of RA 9501, to provide the much-needed revenue of the NG to finance various projects for its citizenry;	Fully implemented
		b. Remit promptly to the BTr the annual dividend due the NG to avoid incurrence of penalty that may be charged by the BTr/DOF pursuant to Section 9(a) of the 2016 Revised IRR of RA 7656;	Fully implemented
		c. Be mindful of the above cited provision of Section 9 of the 2016 Revised IRR of RA 7656 relative to the responsibility of officers of the Corporation tasked to declare/remit the proper amount of dividends to the NG, to refrain from being charged of any penalty/ sanctions for non-	Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
		compliance to any of the Rules cited in the subject Act; and d. Set up the Dividends Payable (Due to NG) corresponding to the amount of under remittances of dividend to reflect the correct balance of retained earnings pursuant to the requirement of PAS 1.	 Fully implemented
Observation No. 2, page 60	2. The selection of a Cash Management Partner (CMP) to assist the Corporation to perform the disbursement (loan releases) and collection requirements of the Pondo sa Pagbabago at Pag-asenso (P3) funds was undertaken through direct contracting method instead of the required competitive bidding, in violation of Sections 4 and 10 of the 2016 Revised IRR of RA 9184, thus, pre-procurement planning was not given due emphasis, resulting in piece meal addresses of procurement and accounting issues that cropped up one after another, after direct contracting has been perfected with a selected CMP.	Comply strictly with Sections 4 and 10 of the Revised IRR of RA 9184 with considerations to Sections 4.4, 4.5 and 48.2 in all procurement activities of the Corporation to be assured of transparency, competitiveness, system of accountability and public monitoring in all their procurement transactions.	Fully implemented
Observation No. 3, page 65	3. Absence of a Memorandum of Agreement defining the responsibilities of the selected CMP in the collection of P3 loans, caused the improper accounting of cash collections, which ultimately	a. Collect all outstanding remittances from CMP - A as reflected in their submitted report sent via e-mail last December 06, 2019; and correspondingly record the payments/update the	Partially implemented The amount of P28,937 is neither collected by the SB

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	resulted in delay in the recording of P3 collections in the amount of P22.330 million and non-recording of the same for at least P4.088 million, thus, misstating the balances of cash, loans receivable and interest income at any point in time, contrary to the requirements of Paragraph (Par.) 15 of PAS 1.	subsidiary ledgers of all affected P3 borrowers;	Corporation nor by the borrower.
		b. Require the Head, Treasury Office to cause the conduct of reconciliation for the collections received by CMP - A per record of SB Corporation's Regional/ Head Office Coordinators as against the Report of Collections submitted by CMP - A as of December 06, 2019 and address immediately any noted discrepancies; and	Partially implemented On-going reconciliation with the report of CMP-A of the discrepancies noted.
		c. Direct all Regional Coordinators to forward within the day to SB Corporation Head Office all payments made by P3 borrowers for prompt collection of remittances from CMP - A. Likewise, efforts should be exerted by Management to compel CMP - A to submit at least a weekly Report of Collection for prompt reconciliation of collections/remittances; and	Partially Implemented Management has not yet received a report of collection from CMP-A on both cashiers.
		d. Henceforth, the SB Corporation to consider the provision of DOF Circular No.1-2017 in the Term of Reference for the CMP to deposit daily receipts/ collections the next banking day to its government depositary bank in compliance with Section 2 of said DOF Circular dated May 11,	Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
		2017.	
Observation No. 4, page 69	4. Undistributed Collection (UC) amounting to P4.020 million as at December 31, 2019 showed an increase of P1.670 million or 71.07 per cent from that of the previous year's UC, thus, affecting the fair presentation of Notes receivable, Interest income and other related account balances in the financial statements, contrary to Par. 15 of PAS 1 as well as increasing the Past due rate and consequently affecting the collection efficiency ratio of the Corporation.	a. Prioritize the identification of loan accounts recorded under UC by creating a team that will conduct the confirmation of payments made and immediately record payments/update the subsidiary ledgers of identified borrowers who made the payments recorded under the UC account;	Partially Implemented Undistributed collection as at December 31, 2020 was reduced to P3.604 million.
		b. Formulate policy and guidelines to improve the collection process and control the accumulation of UC and to establish the acceptable length of time/number of days an item may remain unadjusted/unidentified in the UC; and	Fully Implemented
		c. Submit breakdown of target output to reclassify the UC account balance to its proper account for CY 2020.	Fully Implemented
<u>CY 2018 AAR</u>			
Observation No. 6, page 61	5. Procurement procedures for consultancy services undertaken by SB Corporation in the selection of cloud service provider/fin tech partner to provide web-based services for the implementation of P3 Program were not strictly in accordance with the pertinent provisions of R.A. No. 9184, thus, the governing principles on	Strictly follows the prescribed procurement procedures under R.A. No. 9184 and its IRR to refrain from incurring irregular expenditures.	Fully Implemented

Reference	Audit		Status/ Actions Taken
	Observations	**Recommendations**	
	government procurement of transparency, competitiveness and public monitoring of procurement process were not observed/achieved.		